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TEXTILE AND APPAREL IMPORTS—FREE TRADE OR UNFAIR TRADE?

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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TEXTILE AND APPAREL IMPORTS—FREE TRADE OR UNFAIR TRADE?

WEDNESDAY, SEPTEMBER 26, 1984

United States Senate,
Subcommittee on International Economic Policy
of the Committee on Foreign Relations,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:23 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Charles McC. Mathias, Jr. (chairman of the subcommittee) presiding.

Present: Senators Mathias, Pressler, and Pell.

Senator **Mathias**. The committee will now turn to the question of international economic policy. Over the past 2 years, the Subcommittee on International Economic Policy has held a series of hearings exploring the general theme, the stresses and strains in the international financial system. In these hearings we have been examining the obstacles to global economic growth and we have been looking at the options that were available for removing those obstacles.

We have focused attention on some of the difficult tradeoffs involved in expanding world trade on the one hand, while not penalizing individual domestic industries on the other hand. In other words, what does international development do to businesses and workers at home?

The hearing today continues that examination. We are going to look at the problems of textile and apparel imports and examine the question of whether we are experiencing free trade or unfair trade. I hope that we can explore the problems that face another U.S. industry which is encountering particularly difficult pressures from question competitors, as have the automobile industry and copper industry, with which we have previously been concerned.

This morning, while I am sure we will not arrive at any final conclusions, we seek at least to shed some light on the difficult choices that face the Congress and the administration this year and which I suspect will be facing us with full vigor when the Congress resumes its session in January.

We will hear from two panels of witnesses. The first panel of witnesses will be—and I might ask you to take your places at the table as we call your names—Mr. John G. Young, chairman of the board and president of the Jay Garment Co. and second vice chairman of the board of the American Apparel Manufacturers Association;

Also, Mr. Murray H. Finley, president of the Amalgamated Clothing & Textile Workers' Union, AFL-CIO; and Mr. Sol C. Chaikin, president of the International Ladies' Garment Workers' Union.

Gentlemen, do you have any particular preference as to what order you testify?

[No response.]

Senator MATHIAS. Why do we not go down the list as you came to the table, then?

STATEMENT OF JOHN G. YOUNG, CHAIRMAN OF THE BOARD AND PRESIDENT, JAY GARMENT CO., PORTLAND, IN, AND SECOND VICE CHAIRMAN OF THE BOARD, AMERICAN APPAREL MANUFACTURERS ASSOCIATION, ARLINGTON, VA

Mr. YOUNG. Thank you. Good morning.

I am John Young, chairman of the board and CEO of the Jay Garment Co. in Portland, IN.

Senator MATHIAS. Mr. Young, let me say to you and to the other witnesses that we have copies of your written statement in accordance with the committee's practice, and that your full statement will appear in the record. If you want to summarize it or deviate from it, why, you are free to do so.

Mr. YOUNG. Thank you very much.

I am here today in my capacity as second vice chairman of the American Apparel Manufacturers Association. AAMA is the central trade association for the American apparel manufacturing industry. Our membership represents some 70 percent of U.S. capacity for proposal manufacturing and produces all kinds of apparel.

Accompanying me today are Stewart Boswell, Carl Peaceland, and Larry Martin of the AAMA staff.

We very much appreciate the opportunity to appear before you today and discuss the severe threat to our industry posed by imports of apparel. I will summarize my statement as you suggested, and I will submit it in full for the record.

Before doing that, I would like to digress just for a moment, Senator Mathias, and thank you, on behalf of AAMA, for guiding the anticounterfeit bill through the Senate. We at AAMA very much appreciate that effort.

Our industry is extremely important to the U.S. economy, providing employment for 1.2 million people, of whom almost 1 million are women. In 1983, this industry paid wages and benefits equivalent to $16 billion. Its direct contribution to the U.S. national economy was $19 billion. The industry creates two to three times as many jobs in other industries—retail, transportation, service, et cetera.

Of the fiber consumed in the United States, 40 percent goes into the fabric used to manufacture apparel. The value of this fabric represents 50 percent of the total value of the output of the domestic textile industry. Although struggling against increasing inroads from apparel imports, our industry still is a viable industry and makes an enormous contribution to our domestic economy.

We are here today because we are anxious to see that it continues to be a viable industry. Twenty-five years ago, U.S. apparel production at wholesale was $11 billion and the industry provided 1.17 million jobs. At retail, consumers spent $19 billion on apparel. In 1983, U.S. apparel production had risen to $40 billion and consumers spent $97 billion on apparel.

On the surface, this picture looks good. In current dollars, domestic apparel production almost quadrupled in 25 years and the industry continues to support 1.2 million workers. What this does not tell you is that 274,000 jobs have been lost since domestic employment peaked at 1.4 million workers in 1973.

When inflation is stripped from current dollar value trends, the impact that imports have had on domestic apparel production becomes very clear. In the 1960's, the value of apparel production increased about 5 percent a year, while imports increased about 12 percent a year. In 1969, apparel production was $18 billion and apparel imports were valued at $1.2 billion.

From this point the trends changed drastically. The increase in the value of imports accelerated to 15 percent a year in the 1970's, while domestic apparel production increased 3.5 percent a year between 1969 and 1973. Deflated for price changes, apparel production has not increased beyond the 1973 level of $20.8 billion, and in the last 5 years real apparel production has declined almost $2 billion.

Since 1973, apparel imports have satisfied all additional consumer demand for apparel, and since 1979 the domestic industry's share of the U.S. apparel market has declined. This alarming trend continues despite the many genuine efforts of several administrations and Congresses to help.

We are appreciative of the efforts this administration has made to bring a measure of certainty and reasonableness to the import control program. The guidelines issued on December 16, 1983, represented an effort to bring under control at the earliest possible moment imports in uncontrolled categories from countries with which we have bilateral agreements and rapidly increasing imports from nonbilateral countries. Likewise, the new rules of origin published on August 3, 1984, were a sincere attempt to cope with transshipments and quota avoidance.

Despite these efforts, the administration has fallen far short of its commitment to relate the growth of imports to the growth of the domestic market. Imports of apparel in July of this year amounted to 532 million square yards equivalent, the largest single month in history.

On an annual basis, current apparel imports equate to 5 billion yards for the year. This is 29 percent higher than the record 3.9 billion yards imported in 1983. Since 1980, the last year before this administration took office, imports of apparel have increased 73 percent.

It is disconcerting to note that, while domestic production probably did not increase much between 1982 and 1984, imports have grown 600 million units. It took 10 years for imports to grow 650 million units and now, in only 2 years, imports have grown an additional 600 million units.

In 1973, imports provided Americans 22 percent of their outer wear garments. In 1984, imports will account for about 40 percent of those garments. This import growth is the primary cause of the loss of 274,000 jobs in the apparel industry since peak employment of 1,438,000 in 1973. Many more jobs have been lost in the textile, fiber and other industries.

Currently, the unemployment rate in the apparel industry is at 10.7 percent, half again as high as the national average. It becomes apparent that the multifiber arrangement [MFA] and the bilateral agreements negotiated under it are not bringing order to our marketplace. Import penetration has doubled during the life of the MFA and the domestic industry is suffering from a new avalanche of imports. The growth of apparel outerwear imports this year alone is equal to 32,000 jobs.

The MFA expires in July 1986 and the first discussions on its renewal begin next month in Geneva. We hope that this administration will consult closely with industry and labor and set about to negotiate a new MFA that will enable us to bring order to our marketplace and a reasonable degree of certainty to our business planning, while aiding in the maintenance of a viable apparel industry in this country.

I mentioned earlier the new rules of origin published by the Customs Service on August 3. They were designed to control fraudulent imports and to close loopholes that have permitted circumvention of existing bilateral agreements. We applaud this effort, but we are concerned that in the process of closing one loophole the Customs Service may have opened an even larger one. As an organization, we have suggested an alternative that would close both.

Finally, I would like to discuss a proposal approved by the board of directors of the American Apparel Manufacturers Association at its meeting last week in Atlanta, GA. The proposal is for the creation of an import permit system that would provide a significant improvement in monitoring imports of apparel and provide more certainty in the operation of the textile and apparel import control program. This system could be implemented by the administration under current authority and it would be consistent both with the MFA and the General Agreement on Trade and Tariffs [GATT].

The one thing that all persons concerned with the textile and apparel import program can agree on is that it is not working properly. Domestic manufacturers are concerned about the rapid increase in imports. Importers and retailers are concerned about embargoes and the ability to plan their businesses. We believe the system we propose would provide more certainty to the program, allowing both domestic manufacturers and importers the luxury of advanced planning.

Mr. Chairman, I want to thank the committee for the opportunity to appear here today. We appreciate your interest in our industry and your concern for our problems. I will be pleased, along with my cohorts, to attempt to answer any questions you may have.

[Mr. Young's prepared statement follows:]

STATEMENT
BY
JOHN G. YOUNG
ON BEHALF OF THE
AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Good Morning. I am John Young, President and Chairman of the Board of The Jay Garment Company in Portland, Indiana. I am here today, however, in my capacity as Second Vice Chairman of the American Apparel Manufacturers Association. AAMA is the central trade association for the American apparel manufacturing industry. Our membership represents some 70 percent of U.S. capacity for apparel manufacturing and produces all lines of apparel. Accompanying me here today are Stewart Boswell, Carl Priestland, and Larry Martin of the AAMA staff.

We very much appreciate the opportunity to appear before you today and discuss the severe threat to our industry posed by imports of apparel. I will summarize my statement today, but will submit it in full for the record.

Our industry is extremely important to the U.S. economy, providing employment for 1.2 million people, of whom almost one million are women. In 1983, this industry paid wages and benefits equivalent to $16 billion; its direct contribution to U.S. national income was $19 billion. The industry creates two to three times as many more jobs in other industries -- retail, transportation, service, etc. Forty percent of the fiber consumed in the United States goes into the fabric used to manufacture apparel. The value of this fabric represents 50 percent of the total value of the output of the domestic textile industry. Although struggling against increasing inroads from apparel imports, our industry still is a viable industry and makes an enormous contribution to our domestic economy.

Twenty-five years ago, U.S. apparel production at wholesale was $11 billion, and the industry provided 1.17 million jobs. At retail, consumers spent $19 billion on apparel. In 1983, U.S. apparel production had risen to $40 billion and consumers spent $97 billion on apparel. On the surface this picture looks good. In current dollars, domestic apparel production almost quadrupled in 25 years and the industry continues to support 1.2 million workers.

However, when inflation is stripped from current dollar value trends, the impact that imports have had on domestic apparel production becomes very clear. In the 1960s, the value of apparel production increased about 5 percent a year while imports increased about 12 percent a year. In 1969 apparel production was $18 billion and apparel imports were valued at $1.2 billion. From this point the trends changed drastically. The increase in the value of imports accelerated to 15 percent a year in the 1970s, while domestic apparel production increased 3.5 percent a year between 1969 and 1973. Deflated for price changes, apparel production has not increased beyond the 1973 level of $20.8 billion and in the last five years, real apparel production has declined almost $2 billion. Since 1973, apparel imports have satisfied all additional consumer demand for apparel, and since 1979 the domestic industry's share of the U.S. apparel market has declined.

This alarming trend continues despite the many genuine efforts of several administrations and Congresses to help. Some form of international regulation of textile and apparel trade has existed since 1957 when the Japanese voluntarily limited their exports of cotton fabric. It has extended through three international agreements limiting imports of cotton products. In 1973, the first Multifiber Arrangement, covering cotton, wool and man-made fibers, went into effect and it has twice been renewed. The United States has negotiated 29 bilateral agreements under the umbrella of the MFA.

We are appreciative of the efforts this Administration has made to bring a measure of certainty and reasonableness to the import control program. The guidelines issued on December 16, 1983, represented an effort to bring under control at the earliest possible moment imports in uncontrolled categories from countries with which we have bilateral agreements and rapidly increasing imports from non-bilateral countries. Likewise, the new rules of origin published on August 3, 1984, were a sincere attempt to cope with transshipments and quota avoidance.

Despite these efforts, the Administration has fallen far short of its commitment to relate the growth of imports to the growth of the domestic market. Imports of apparel in July of this year amounted to 532 million square yards equivalent, the largest single month in history. On an annual basis, current apparel imports equate to 5 billion yards for the year. This is 29 percent higher than the record 3.9 billion yards imported in 1983. Since 1980, the last year before this Administration took office, imports of apparel have increased 73 percent.

It also is interesting to compare the current import situation with the situation as it existed in 1973, the first year the Multifiber Arrangement was in effect. In 1973 the domestic industry produced 13.1 outerwear garments for every American and imports provided 3.7 garments per person. In 1982, the domestic industry produced 12.8 garments per capita and imports provided another 6.2. While domestic production has not grown much if at all in 1983 and 1984, imports in 1983 provided 7.1 garments per person and, at the current rate will provide 8.6 garments per person in 1984. Put another way, in 1973 imports provided Americans 22 percent of their outerwear garments. In 1984, imports will account for about 40 percent of those garments.

It is disconcerting to note that while domestic production probably did not increase much between 1982 and 1984, imports have grown 600 million units. It took 10 years for imports to grow 650 million units and now, in only two years, imports have grown an additional 600 million units.

This import growth is the primary cause of the loss of 274,000 jobs in the apparel industry since peak employment of 1,438,000 in 1973. Many more jobs have been lost in the textile, fiber and other industries. Currently, the unemployment rate in the apparel industry is 10.7 percent, half again as high as the national average.

It becomes apparent that the Multifiber Arrangement and the bilateral agreements negotiated under it are not bringing order to our marketplace. Import penetration has doubled during the life of the MFA and the domestic industry is suffering from a new avalanche of imports. The growth of apparel outerwear imports this year alone is equal to 32,000 jobs.

The MFA expires in July 1986 and the first discussions on its renewal begin next month in Geneva. We hope that this Administration will consult closely with industry and labor and set about to negotiate a new MFA that will enable us to bring order to our marketplace and a reasonable degree of certainty to our business planning.

I mentioned earlier the new rules of origin published by the Customs Service on August 3. They were designed to control fraudulent imports and to close loopholes that have permitted circumvention of existing bilateral agreements. We applaud this effort, but we are concerned that in the process of closing one loophole the Customs Service may have opened an even larger one. As an organization, we have suggested an alternative that would close both.

Basically, these regulations impose a two-stage method of determining country of origin for textile and apparel imports which undergo manufacturing in more than one country. First, in order to obtain origin in the second country it must have undergone in that country "a manufacturing or processing operation which is substantial in comparison to the manufacturing or processing" done in the originating country. Second, if a substantial manufacturing or processing operation is found in the second country, the resulting product must have been so changed as to be "a new and different article of commerce with a name, character or use distinct from the article or material" produced in the first country.

These requirements were designed to prevent situations where it is advantageous, for quota purposes only, to obtain origin in the second country. The regulations, however, add that no product shall be considered to have been substantially transformed in the second country if it had undergone in that country only a sewing operation.

It appears that the second provision might open the door for a new quota evasion practice under which goods might be cut in a country with no quota, sewn in a country with a full quota and exported to the United States as goods of origin from the first country.

We have proposed a revised definition of apparel origin. Under it, origin for garments knit to shape would reside in the country where the knitting occurred. For woven garments, origin would lie in the country where the overwhelming majority of the labor was performed. We believe this definition would be relatively easy to enforce and that it has the simple logic of placing origin in the country where the majority of the effort to produce the product was exerted.

Finally, I would like to discuss a proposal approved by our Board of Directors at its meeting just last week in Atlanta. The proposal is for the creation of an import permit system which would provide a significant improvement in monitoring imports of apparel and provide more certainty in the operation of the textile and apparel import control program. This system could be implemented by the Administration under current authority and it would be consistent both with the MFA and the General Agreement on Trade and Tariffs.

Our proposal at this point is conceptual and subject to refinement. Under it, an exporting company would obtain a permit from the United States Department of Commerce. A request for a permit must be accompanied by a letter of credit or other legitimate evidence of an order for the goods. In the case of goods covered by quota, the exporter must present evidence that he has been allocated quota. This would prevent a few major exporters from obtaining large numbers of permits. A permit must be obtained no earlier than 18 months and no later than 90 days prior to shipment. Consistent with present practice, shipments valued under $250 would be exempt from the permit system. The Department of Commerce could charge the exporter a reasonable fee for the permit.

Permits would be considered authorizations to import and their issuance would be automatic except in cases where quotas are filled. Permits also would provide an early warning system under which their accumulation would alert government and industry to impending threats of market disruption. Permits would be required for imports from all countries. However, consistent with current policy, no restraints would be placed on imports from developed countries.

The exporting company would be required to have the permit validated by an appropriate government agency in its own country. This validation would affirm that the goods are what they are purported to be and that they are goods of origin in that country. This permit then would accompany the goods and no goods would be admitted through U.S. Customs without an appropriately validated permit.

The one thing that all persons concerned with the textile and apparel import control program can agree on is that it is not working properly. Domestic manufacturers are concerned about the rapid increases in imports. Importers and retailers are concerned about embargoes and the inability to plan their businesses. We believe the system we propose would provide more certainty to the program, allowing both domestic manufacturers and importers the luxury of advance planning.

Mr. Chairman, I want to thank the Subcommittee for the opportunity to appear here today. We appreciate your interest in our industry and your concern for our problems. I would be pleased to answer any questions you may have.

Senator **Mathias**. Thank you very much.

Mr. Finley.

Mr. **Finley**. Thank you, Senator Mathias.

Senator **Mathias**. We are being very formal with each other this morning.

Mr. **Finley**. Yes. We will be more informal on other occasions, Senator. I have had the pleasure of hearing you and listening to you.

STATEMENT OF MURRAY H. FINLEY, PRESIDENT, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO, NEW YORK, NY

Mr. **Finley**. I am Murray Finley, president of the Amalgamated Clothing & Textile Workers Union. With me today are Ms. Elizabeth Smith, the director of our department of legislation, and Ms. Julie Solomon, a consulting economist.

Senator, I appreciate the opportunity to be here and, even more important than my opportunity to be here, the fact that you are holding hearings on the so-called issues of free trade and protectionist arguments relating to the textile apparel industry, because I think what you are looking for comes to the heart of the discussion and the debate that is now raging on the whole question of trade and, in particular as far as we are concerned, with the U.S. textile and apparel industries.

I have submitted a rather lengthy statement and I am going to summarize it, Mr. Chairman. Let me just open my remarks by reading to you a very brief letter that was written on September 30, 1980. It was addressed to Senator Strom Thurmond. The letter states that:

> The fiber and textile apparel manufacturing complex provides 2.3 million vitally needed American jobs, including a high percentage of female and minority employees. As President, I shall make sure that these jobs remain in this country.
>
> The Multi-Fiber Arrangement, MFA, which is supposed to provide orderly international trade in fibers, textiles and apparel, was first negotiated under a Republican Administration. The MFA expires at the end of 1981 and needs to be strengthened by relating import growth from all sources to domestic market growth. I shall work to achieve that goal.
>
> Sincerely, Ronald Reagan.

I would submit that I had only hoped that President Reagan had listened to candidate Reagan. That letter in a sense—and I am not trying to be political here, Senator. God forbid at a time like this.

Senator **Mathias**. I would never suspect that of you, Murray.

Mr. **Finley**. It is the last thing from my mind.

But it does summarize the nature of the problem. There were 2,300,000 jobs when this letter was written by then candidate Reagan. There are almost 500,000 less in this period of almost, a little bit over 4 years. And the point I think of this is to examine what has happened and what can be done about it within the framework as we see the world trading situation.

Mr. Young gave, I thought, an excellent summary. I know Mr. Chaikin will go into aspects that I will tell you now I will agree with, and I will try not to go into those aspects that they are going to do.

The textile and apparel industry in this country is a major manufacturing industry. The numbers and the composition show it. But it is more than a major one in this country; it is the worldwide largest manufacturing industry in the world. It encompasses not only almost 2 million in the United States; it encompasses almost that many in the Common Market, it is important in Japan, and in the Third World, the developing world, millions of people are now engaged in the manufacture of textile and apparel.

It therefore becomes both important economically and politically. And then the question then comes: How does one approach this gigantic basic important industry, both in the developed and the developing world, in such a way that trade and development will occur for everybody, in such a way that it will not cause terrible dislocations and hardships to hundreds of thousands and perhaps millions of people, and also political repercussions.

And let me submit, Mr. Chairman, that there is in place now a unique example in the treatment of textile and apparel, and that is the fact this is the one industry that has actually since 1961 been internationally managed trade under the auspices of GATT, beginning in 1961 with the short-term cotton textile agreement, 1962, the long-term cotton textile agreement, and then beginning in 1974 with the first multifiber arrangement, which now, as Mr. Young has mentioned, will expire in July 1986.

I do not think the issue then in handling this is one of free trade and protectionism. I think that is a description that has no meaning to the reality of the world. Almost all the exporting countries engage in subsidies, engage in dumping, engage in the so-called acts which are not free trade acts, and we have submitted a countervailing duty suit where we have been held to be correct, and so forth.

The issue is not, then, protectionism which puts barriers and walls. The issue is how do we do it so that all segments, both domestically and offshore, developing and developed countries, can grow together in such a way that it does not do damage to the people, the millions of people involved.

Now, let me see what has happened. Let us take a look at what has happened under the internationally managed trade in the textile and apparel industry, and particularly since 1974 with the institution of the first MFA. If we look at it domestically, there has been a shrinkage. There has been a relatively gradual shrinkage until the last 4 years, and I will talk about that briefly.

But as far as the domestic producers, the MFA has given them a certain sense of stability and orderliness, so that there was a willingness to invest in plant and equipment. The U.S. textile industry has invested billions of dollars in the last decade to improving plant and equipment and increasing productivity, so that it has gone much faster than the rest of the country, and the apparel industry is now in the same process, providing they have a sense of stability in the industry.

What has it done for the consumer? If you will look at the record since the MFA, the Consumer Price Index for apparel has gone up at the rate of 3.2 percent annually compounded, as against 8.1 percent for the whole index. The U.S. consumer has been not a sufferer, but for a number of reasons has been probably the best break of all has been the price of apparel since the MFA in the United States.

And to the worker, while there has been a slow shrinkage until the last 4 years, at least it has been one that there could be some adjustment and there could be some—people could find something else to do.

What has it meant to the developing countries? It is obvious. The MFA has not kept them out of the United States. The growth of imports in terms of the share of the market has gone up, so that now they have somewhere between 35 to 40 percent of the U.S. market, and millions more workers around the world in the developing countries are now engaged in this industry.

So we see that by internationally managed trade, if properly done, you can have growth and productivity in the United States, you can have a stronger domestic industry, you can have a reasonable rate of adjustment for the workers, and you can have growth in the developing countries.

Now, what has happened on the other hand when the agreement has been managed inadequately, as it has been in the last 4 years? When the rights under that agreement, under MFA, have not been carried out by the administration, then you see a mushrooming, as Mr. Young pointed out—the first 8 months of this year, 70 percent growth in imports from over 40 in the first 7 months of this year, at a time when domestic cuttings are actually level. In 1983 domestic cuttings went up a little bit over 1 percent, and 25 percent growth in imports.

In one of your prior hearings, Mr. Chairman, you mentioned in a question to a prior witness the relation of the overvalued dollar. Let me point out that in terms of the effect on textile apparel imports, we have made a study of this.

The overvalued dollar has affected approximately 20 percent of the growth in apparel, primarily from the Common Market. The other 80 percent, which means if you took 80 percent of the 60-some percent growth or 70 you have almost a 60 percent growth which had nothing to do with the overvalued dollar. The reason for this is the major exporters to the United States is the Far West. Their currency goes very closely in relationship with the U.S. dollar.

So that while we are concerned about the overvalued dollar, it will not meaningfully affect the imports in this country. It had an effect on the exports of textiles, because that was primarily to the Common Market, but not on the flood of imports that are coming in.

So, Mr. Chairman, what I submit is that, one, internationally managed trade under GATT has worked up until the last 4 years. It is the only way of handling the serious problem affecting millions of people around the world. It is a way that the industry can—with the unions, by the way, with the unions—and let me just make one last statement before I close, Mr. Chairman.

Our union is engaged with the fiber, textile and apparel industry and with the help of the U.S. Government in spending millions of dollars a year for the establishment of high technology in the apparel industry. We are developing robotization now in this industry, because we see this as not the problem but the answer.

But there is no way we are going to be able to do this if there is not an orderly growth in trade in textile apparel, but if it continues to mushroom at the rate it is now going there will be no incentive or desire or hope for either us or for the industry to spend money.

So Mr. Chairman, in looking at it the issue is not a question of free trade or protectionism; the issue is really what is the most effective way to have an orderly growth in trade in textile apparel around the world. And I submit a properly managed internationally managed trade, a properly administered MFA, has been proven to be that answer that helps not only the United States, but will help the developing world.

One last thing. If anyone wants to know, Mr. Chairman, what has happened, I can give you a list of a half a dozen companies in the city of Baltimore in the last year or so, sadly, who have either closed or shrunk in employment. In that city alone, a half a dozen. You have almost 2,000 less people working, all as a result of the mushrooming of imports in this past period because of an improperly administered MFA.

Thank you, Mr. Chairman.

[Mr. Finley's prepared statement follows:]

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

MURRAY H. FINLEY
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TESTIMONY OF MURRAY H. FINLEY, PRESIDENT

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

Before the International Economic Policy Subcommittee
Committee on Foreign Relations
United States Senate

Hearing On

TEXTILE AND APPAREL IMPORTS: FREE TRADE OR UNFAIR TRADE?

September 26, 1984

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I. Introduction

My name is Murray Finley, and I am President of the Amalgamated Clothing and Textile Workers Union, AFL-CIO, which has a membership of approximately 360,000 workers who produce various items of men's and boys' clothing and textile mill products.

I appreciate the opportunity to appear today to discuss the problems faced by the textile and apparel industry. It is an appropriate time to do so considering the most recent statement by the Administration, this time by the U.S. Trade Representative, Ambassador Brock, on September 20, 1984, that the textile and apparel industry is among the most import sensitive industries.

Every President of the U.S. since Dwight Eisenhower has been concerned about the import sensitivity of the textile and apparel industry. International agreements have been negotiated to provide the means to moderate imports. But despite the statements of concern and promises to solve the import problem, the jobs of textile and apparel workers are being lost to import surges. There are at least 400,000 fewer jobs in the textile and apparel industry today than there were ten years ago when the Multifiber Arrangement first became effective. Imports grew 25 percent in 1983 over 1982, 44 percent in the first seven months of 1984 over the same period of 1983, and 62 percent in July 1984 over July 1983. This import growth was at the direct expense of domestic production of textiles and apparel. Coming out of the recession, U.S. consumption of textiles and apparel increased between 1982 and 1983. However, while imports grew by 25 percent, domestic apparel cuttings fell by 1 percent. And, compared to the 44 percent import surge in the first seven months of 1984, domestic apparel cuttings showed no increase.

The approach to the problems of international trade, as exists today in the U.S. textile and apparel industry, could stand, in my judgment, as a model for other industries with similar problems. There are three essential elements involved. First, trade in textiles and apparel is managed by the Multifiber Arrangement or MFA. Despite serious shortcomings in the implementation and enforcement of the MFA, I believe internationally managed trade is the right way to address serious industry or sectoral trade problems of international consequence. Import restraints provide some assurance of manageable growth in imports and import penetration. Second, with internationally managed trade moderating import impact, a coordinated program of modernization and technological advancement, such as exists in the men's and boys' tailored clothing industry, is vital for any American industry if it is to remain viable within the world trading system. Third, the cooperation of management and labor, in achieving both a workable restraint system and a modernization program, is a prerequisite to an economically strong industry.

It is my belief that this three-prong policy approach -- restraints on imports, a modernization program, and management/labor cooperation -- offers the best possibility for satisfactory long-term resolution of the most important trade difficulties facing American firms and their workers today.

While many policy-makers, academicians, and business leaders may balk at the word "managed trade", I would note that a large portion of international trade is already "managed." It is managed directly in government-to-government trade, in trade controlled by multinational corporations, and in countertrade arrangements. It is managed indirectly through nationalistic economic policies such as government export and other subsidies, most of which place the United States at a disadvantage.

Still, the textile and apparel industry is a pioneer. The Multifiber Arrangement is the only officially-sanctioned international system of managed trade in manufactures in the world today. For this reason, experience under the MFA is useful in examining the opportunities and challenges of internationally managed trade.

II. Restraints on Imports: "Controlled Import Growth"

The first element of a satisfactory solution to severe international trade problems is import restraints. The MFA has generally not been viewed by the U.S. Government as an instrument to reduce or maintain existing levels of textile and apparel imports and import penetration. Rather, the MFA's stated aim is to promote the orderly growth of textile trade among countries, albeit on a sound, nondestructive basis.

While the MFA is a model for an internationally managed trade solution to problems of international trade, in practice the MFA is far from perfect.

Almost without exception, overall increases in import penetration, market disruption, and job losses have continued since 1974 when the MFA went into effect. This is because the MFA is not a self-effectuating type of arrangement. Rather the effectiveness of the MFA depends almost entirely on how the United States and other governments implement their rights and obligations under the MFA, particularly under bilateral agreements.

Currently, the 28 U.S. bilateral textile/apparel agreements in force today vary widely in the degree to which they actually inhibit growth in American imports from individual countries, and restrain individual products. In general, only a limited number of highly sensitive products are subject to specific restraints that effectively limit the level of exports to the United States.

Bilateral agreements provide for consultations if imports in uncontrolled product categories begin to threaten or cause disruption in the U.S. market. However, in nearly all cases these consultations take place only after actual import surges occur. Moreover, in 1983, one-third of all textile and apparel imports into the U.S. market came from countries with which the United States does not even have a bilateral agreement. In the first half of 1984, only 56 percent of total textile/apparel imports subject to the MFA were controlled.

Finally, the technical provisions of the MFA and the bilateral agreements grant a tremendous amount of flexibility to exporting countries which create extensive opportunity for them to increase their exports to the United States. Thus, it is hardly surprising that the system of bilateral agreements spawned by the MFA has only constrained trade moderately.

In 1983, total U.S. imports of textiles and apparel grew by 25 percent over the 1982 levels. Through the first seven months of 1984, imports surged a further 44 percent over the corresponding period of 1983. In the month of July 1984, imports were a whopping 62 percent above levels one year earlier. These dramatic import increases, by themselves, speak volumes about the true restrictive impact of the MFA as it relates to the United States. Clearly, much needs to be done to make the MFA a more effective system.

The import surges in textiles and apparel have great significance for the overall trade balance of the U.S. Last year, the U.S. merchandise trade dificit reached a record $69.4 billion. The textile and apparel trade deficit of $10.6 billion represented more than 15 percent of the 1983 merchandise trade dificit. This year, just through July, the overall merchandise trade dificit has exceeded the trade deficit for all of 1983. Predictions are that the 1983 deficit will be in the neighborhood of $120-$140 billion. The textile/apparel trade deficit will likely reach $16 billion this year.

The overvaluation of the U.S. dollar has contributed to the textile/apparel import problem, although exchange rates are by no means the basic problem. Imports of textiles and apparel from the developing countries seem to increase almost without regard to the relative strength of the dollar. It has been estimated that only about one-fifth of the tremendous increase in textile/apparel imports can be traced to the strengthening of the U.S. dollar; this one-fifth relates primarily to the increase in textile/apparel imports from Europe. Whereas the level of imports from Europe has a tendency to be more influenced by exchange rate fluctuations, imports from Hong Kong, Korea, Taiwan and China, which account for about half of all textile/apparel imports, are not as affected by exchange rate fluctuations.

The relative strength of the dollar has had, however, a substantial effect on U.S. exports of textiles and apparel. U.S. textile and apparel exports (mostly textiles) fell from a peak of 1.3 billion pounds in 1980 to just 694 million pounds in 1983. Notably, between June 1980 and June 1984, on a trade-weighted basis, the value of the U.S. dollar increased by 135 percent against the currencies of the countries to which we export textiles and apparel, but increased by only 56 percent against the currencies of the countries from which we import textiles and apparel. This has contributed to the widening of the U.S. textile/apparel trade deficit.

Importantly, an easing of the overvaluation of the U.S. dollar will not solve the textile and apparel import problem to any significant extent. The solution must lie in more effective control over import surges.

The increases in textile and apparel imports have resulted in substantial employment declines in the industry. Employment in textile mill products fell by 155,000 jobs between 1978 and 1983 (from 899,000 workers to 744,000 workers), while employment in apparel and related products fell by 168,000 jobs over the same period (from 1.33 million workers to 1.16 million workers). The combined job loss was 323,000. Further, the 1984 unemployment rate in this industry is both higher than the national average and even higher than the textile/apparel unemployment rate last year.

The August 1984 unemployment rate in textiles was 10.2 percent (up from 9.5 percent in August 1983) and in apparel it was 12.5 percent (up from 12.1 percent in August 1983). The overall civilian jobless rate was 7.5 percent in August 1984 (down from 9.8 percent in August 1983). Thus, the unemployment rate in apparel last month was fully 5 percentage points higher, and the unemployment rate in textiles almost 3 percentage points higher, than the overall unemployment rate.

Until recently, the MFA has normally provided since 1974 a degree of predictability and certainty to the domestic market and to the domestic industry that would otherwise have been absent.

This relative stability has without a doubt encouraged investment. Capital investment by the textile industry rose from $1.2 billion in 1974, the first year of the MFA, to $1.7 billion in 1981, an increase in real terms over that period. This increase in capital investment resulted in an almost doubling of capital expenditures per worker over the period, and allowed textile worker productivity to grow faster than productivity in any other manufacturing industry between 1973 and 1981. But with recent import surges, capital investiment in the textile industry has been inhibited. In 1983, it totaled only $1.4 billion.

The MFA has encouraged adjustments, thereby strengthening the most competitive features of the industry. Because of rising imports and increased productivity, the number of domestic workers and firms is declining, indeed many more than we believe is warranted. Certain products are now made in this country in sharply reduced quantities. Others have prospered on new product development, improved production process technology, and productivity improvements. While, on the one hand, imports have been allowed to grow adversely affecting domestic production and employment, on the other hand, the MFA has prevented even more serious dislocation for hundreds of thousands of American workers, thousands of firms, and hundreds of local communities. Such extended dislocations would be highly disruptive, causing enormous economic and social costs.

Importantly, the MFA and import restrictions have not been accomplished at the expense of increases in consumer prices. Increases in consumer prices for apparel have been modest relative to price increases of other commodities. Between 1974, when the MFA went into effect, and 1983, the CPI for apparel rose at a compound annual rate of just 3.2 percent, compared to 8.1 percent for the overall CPI.

The very size and scope of the MFA reflect many years of painstaking negotiations on a massive scale, channeling a wide range of conflicting economic interests into a workable although imperfect solution. International textile and apparel trade has grown greatly under the MFA and many developing countries have successfully expanded their industries. Third World countries have certainly prospered under the MFA. There are millions of workers in the developing countries -- and the number is growing -- who have prospered in the production of textiles and apparel for export to the U.S. market. They have been the true beneficiaries of the MFA.

At the same time, the mature economies have experienced a much more stable and predictable competitive environment than they would have otherwise. As a result, the MFA remains in effect because the chief alternatives -- chaotic free trade or unilateral controls -- are unacceptable.

The MFA as a model for internationally managed trade illustrates the advantages of internationally managed trade over the current international trading system, particularly in major areas of ongoing trade disputes.

- Internationally managed trade does not, nor is it designed to, prevent long-term structural adjustment in response to competitive conditions in the world economy. Internationally managed trade should be, and in the case of the MFA has been, structured to assure continued but less disruptive growth in trade, if clearly justified by international competition.

- Internationally managed trade can provide perhaps the only equitable means of allocating the negative structural adjustment that results from increasing international trade more fairly among those countries that are less competitive. Political feasibility dictates that this burden be shared within an internationally negotiated framework, as opposed to the haphazard operation of market forces and unilateral political intervention. Such a process would facilitate unpleasant decisions and moderate international competitive pressure, giving countries sufficient time to adjust and giving individual industries that stand to lose at the hand of free trade a more stable environment in which to plan their best investment strategies.

- Under internationally managed trade, pressure can be brought to bear in a multilateral context on countries to prevent an unrealistic or overly ambitious investment in product areas already suffering from excess worldwide capacity. Frequently, developing industries are located in countries that already severely restrict foreign competition in their own markets, thus distorting local investment decisions. Moreover, certain countries, both developing and developed, target particular industries for development either for noneconomic considerations or to encourage selected goals, such as employment or market share, at the expense of other economic goals, such as wages or profits. Under a system of internationally managed trade, there would be greater transparency of noneconomically based investment which could prevent actions that would unnecessarily worsen a trade problem.

- An internationally managed trade program could potentially inhibit unfair trade practices such as subsidizing and dumping. Since growth in imports and import market share would moderate, the incentives for exporting countries to engage in these unfair economic practices might be reduced. Internationally managed trade would also provide a means to respond to the manipulated pricing practices of industries in centrally planned economies, which the international trade community has not yet addressed adequately.

- Internationally managed trade is the only system whereby alternative social, economic and political goals can be integrated with market processes. Under the MFA, truly poor nations, such as Indonesia, India and Haiti, get an opportunity to export to assist their economic development which they would otherwise never have. Hong Kong, Korea, Taiwan and China would certainly oligopolize the U.S. textile and apparel market under a totally unrestrained system.

III. Efforts to Compete: A Modernization Program

Hand-in-hand with internationally managed trade must go a coordinated program of modernization. Labor is willing to do its part to work constructively to protect our industrial base by making it more competitive. The continuous modernization of American industry is, of course, basic to maintaining America's competitiveness in international trade. U.S. labor is not blind to the need for technological advances to assist in bringing down costs and improving our competitiveness. It would be foolish for labor to think otherwise, since the alternative is rapid attrition of jobs and closed plants as U.S. firms fail to compete with imports.

Our union, with its roots so deep in the history and traditions of the men's tailored clothing industry, is actively pursuing the goal of technological advancement. The men's tailored clothing industry represents an outstanding example of labor and management working together to reduce costs and thereby improve its competitive position. The Textile/Clothing Technology Corporation, or TC^2 as it is commonly known, was created through funding by our Union, individual companies, and the U.S. Government. The union and several participating companies are each investing substantial sums each year in this program. Supported by these funds together with grants from the U.S. Department of Commerce, the Textile/Clothing Technology Corporation is conducting extensive research into reducing production costs.

In this effort, the Textile/Clothing Technology Corporation is looking at ways of transforming the method of manufacturing garments by looking outside the traditional methods. For instance, it has been determined that only 25 percent of labor requirements in the manufacture of tailored clothing are in the sewing of the garment. Clearly, we must attempt to reduce handling costs. Therefore, the Textile/Clothing Technology Corporation is addressing itself to the reduction in handling requirements and thus hopefully resulting in an appreciable reduction in overall labor costs. There have been real break-throughs here. We have developed robotization techniques for application to the garment industry.

We see further break-throughs ahead in bringing down costs in the tailored clothing industry. Significantly, the Japanese are spending some $60 million for research and development for its apparel industry with the same objectives as ours.

Our Union will have the responsibility with management's cooperation for dealing with the robot-related problems of compensation for workers who may be displaced or placing them in other jobs. In this way and others, we expect to make this industry more competitive and viable, and thus help build a stronger domestic economy.

Other industries faced with severe import problems similarly have a major stake in increasing their competitive stature. An effort to modernize is crucial, but is most likely to achieve optimum results only when practiced in the context of an internationally managed trade environment.

IV. Management/Labor Cooperation

The effort to modernize the men's tailored clothing industry is a good example of what can be accomplished when management and labor cooperate. That kind of cooperation needs to be fostered in all basic industries.

If management believes that corporate goals can be met only by winning out over labor interests, it is a mistake. Much more can be accomplished by management and labor working together.

Labor is not opposed to companies making a profit. Companies that are not profitable cannot expand, or even maintain indefinitely, job opportunities. They cannot invest in new plant and machinery.

For good reasons, labor is opposed to the failure of management in too many industries to use its profits to invest in more productive technology. The case of U.S. Steel buying Marathon Oil instead of reinvesting in the modernization of its facilities is probably the outstanding case in point. Labor is also opposed to management policies that place the entire burden for the adjustment to technological changes solely on the shoulders of workers and their union.

By and large, the textile and apparel industry has a history of management and labor working together to solve the problems posed by imports. We are both striving for maximizing output, we both see the critical importance of being competitive in our own market, and hopefully even in markets abroad. We both understand the vital importance of preserving America's industrial base.

Neither management nor labor can accept policies which prevent necessary adjustments to occur as our technological development proceeds. We do not believe that any sector in the American economy or any group of firms and workers should pay the total costs for the presently inept trade policies of the United States. In short, we understand the importance of improving the competitiveness of American industry.

In all of this, labor acknowledges its responsibility. Management must share its responsibility. And above all government policies must also share considerable responsibility with labor and management.

V. Where Do We Go From Here?

There can be no doubt that a more effective import restraint program is needed in textiles and apparel. Forty-four percent import growth in the first seven months of 1984 cannot be ignored, nor can it be accepted. We want the MFA to work, and it simply is not working as it should.

The effectiveness of the MFA is directly related to the will of those who administer the program. The U.S. Government's will for an effective MFA must be strengthened.

The rules governing country of origin which were proposed by the Administration are, indeed, a step in the right direction. Illegitimate practices to circumvent quota restrictions should not go unnoticed nor unaddressed. Yet, realistically, these country-of-origin rules do not offer a long-term solution to the import problems faced by the domestic textile/apparel industry.

Two results can be expected in the long run from the new country-of-origin rules.

- Those countries which currently perform the initial manufacturing operations will take over the entire production process. For example, currently China may manufacture an item and send it elsewhere where a minor part of production occurs, the finished garment being considered a product not of China, but of the country where only minor manufacture took place. The proposed rules of origin change this. But, in the long term, China will complete all steps of the manufacturing process in China, so long as enough quota exists.

- Alternatively, those countries which currently perform the minor part of production will take over the entire production process. Here, some of the lesser developed countries, such as Mauritius or the Maldive Islands, currently the base for satellite operations, will in the long term be able to manufacture the garments in their entirety.

Either way, the proposed changes in the rules of origin will only have a short-term effect on imports. The international textile and apparel trading system will merely adjust to these new conditions. There is no monopoly on the skills or equipment needed to produce textiles and apparel.

VI. Conclusion

Internationally managed trade, such as the MFA, offers what we believe to be the optimal solution to the international trade conflicts caused by current trends in the world economy and the changing competitive position of the United States. Yet, quite clearly, the MFA is not working as it should.

- Steps should be taken to strengthen the MFA while still allowing orderly growth in textile trade.
- Stricter enforcement of established quotas to prevent circumvention is absolutely necessary. The proposed country-of-origin rules, at least initially, will help in that regard.
- Circumvention of quotas through customs fraud -- mislabeling of country-of-origin or of fiber content, and under-invoicing -- must continue to be policed. The U.S. Customs Service "Operation Tripwire" is a step in the right direction.
- Actions against surging imports must be immediate and decisive.

As a model for internationally managed trade, there is a major stake in making the MFA a more effective solution to international trade problems in textiles and apparel.

Senator **MATHIAS**. Thank you.
Mr. Chaikin.

STATEMENT OF SOL C. CHAIKIN, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, ACCOMPANIED BY HERMAN STAROBIN, DIRECTOR OF RESEARCH, ILGWU, NEW YORK, NY

Mr. **CHAIKIN**. Senators, Mr. Chairman. On behalf of the hundreds of thousands of members of the International Ladies' Garment Workers' Union, I am very thankful to the committee for permitting me to express our views on this subject. We have submitted a brief, as it were, and I know that you will read it. I do not want to take the time and attention from the panel to read it verbatim, so if you will permit me I will just articulate a number of our concerns.

I would like at the outset to describe the nature of the apparel industry, many of whose workers I have the privilege to represent. Most people, when they think in terms of industries impacted by foreign trade, think in terms of autos and steel; the average criticisms have been directed both to the union workers and the employers in those industries.

Let me see if I can draw a very simple distinction between these industries, and the employees within the industries who have been so adversely affected by trade in textile, apparel, and clothing. Please bear in mind that I speak only for workers in the apparel industry. Over the last number of years, there has been a wide divergence in the makeup and the capital intensity of textile manufacturing and apparel manufacturing.

In our industry, there are over 25,000 entrepreneurs. They are small businessmen mostly, daily competing with each other for a share of the consumer's dollar. They are individual entrepreneurs, by and large. Not one of the major companies in our industry controls as much as 1 percent of the total volume of production in the industry.

They are extraordinarily and sharply competitive. Apparel manufacturers run lean and mean. They use the state of the art technology. There is no country in the world that, in the matter of assembly of garments, uses state of the art technology that is much different from that which is used here. Indeed, the original factories for the making of apparel and clothing were set up overseas by American entrepreneurs, using American machinery and American production systems.

This is an industry where the percentage of profits is very small, because it is very competitive, and because of the products involved. Garment manufacturers are not the fat cats; they are not able to administer prices or to command production in a marginally competitive domestic market.

In the manufacture of ladies' and children's apparel in the Far East—primarily in four exporting countries which supply 72 percent of all of the imports of ladies' and children's apparel—they use American styles, American patterns, American size ranges, and American quality requirements.

The apparel industry is not an indigenous industry in the Far East, which developed on its own unusual styling or unusual quality, which was then picked up by American consumers. This was the case with Japanese cars, which were small and fuel-efficient, and were manufactured to take account of the Japanese economy and the problem of importing energy and paying the world price for it; Americans discovered these gas effective cars at a time when we ourselves began to confront increases in the price of gasoline.

Rather, it was quite the contrary. Industries in the People's Republic of China, Hong Kong, Taiwan, and South Korea, which are the four exporting nations which ship in 72 percent of all of the ladies' and children's apparel, manufacture primarily for the American and the Common Market, using our styling, our size ranges, and our quality requirements.

Let me describe briefly the workers in the ladies' and children's apparel industry. In the big cities, they are primarily blacks, Hispanics, Asiatics, and a number of other minorities. The work force is composed of recent immigrants into the United States. Here may I say parenthetically that the United States permits more legal immigration in 1 year than almost all of the other industrial democracies combined—about 400,000, more or less—not taking into account the undocumented workers who daily come across our borders.

For these people, new immigrants and minorities in big cities, the garment industry is often their threshold industrial experience. It is a job they can learn by precept and example. They do not have to be articulate in our language. They do not have to be well educated or have much scholastic attainment. They can learn to do the job as unskilled workers, and then become highly skilled as they work.

About two-thirds of our members are located in 38 States, in areas where there are few large urban centers; here our members are indigenous Americans from the small communities where clothing and apparel are made.

Garment workers can achieve a sense of self-worth. They are self-supporting, and they provide opportunities for themselves and their families to get by. You will know what I mean when I say "to get by" when I indicate to you that the average earnings in the manufacture of apparel and clothing is less than $6 an hour across the country. As a matter of fact, it is a little higher in the Northeast part of the country and somewhat lower as you go South and West.

Now, I ask you to compare the average earnings in this industry to the national manufacturing average, which is $9.10 an hour and to compare the fringe benefits which are applied to less than $6 an hour in the garment industry to the fringe benefits which may be applied in those industries with higher average earnings.

We are not among the fat cats of American workers. We have not priced ourselves out of the market. Our employers have not been slothful, or heedless of the needs of the American consumers. They have been in the vanguard of maintaining quality and styling requirements. The workers are highly productive, because 85 percent of them are on a piece work incentive system. They are quite efficient in their manufacture and they rate as highly as workers overseas who do generally the same work using the same technology and using the same methods of manufacture.

Well, what has happened? About 12 years ago this industry, including textile manufacture in this case, gave job opportunities to 2.5 million Americans. Today we hardly employ 1,700,000, with more than two-thirds employed in the apparel and clothing industry.

Two and a half million workers some years ago represented one industrial worker out of eight in the United States. Today, with the small number of industrial workers, we maintain the same proportion.

Let me talk about the multifiber arrangement and its antecedents. We go back now to Cordell Hull's day, when we first started the cotton agreements. Because practically every country in the world has the capacity to make textiles and apparels, it became a subject of concern even before the formal undertakings which evolved into the General Agreement on Tariffs and Trade and the multifiber agreement, and the bilateral agreements that we have negotiated with 32 countries since then.

These agreements were supposed to guarantee a number of items. Foremost was orderly arrangements for trade in textile, apparel and clothing. I submit to you that while the MFA once served a reasonable purpose it has broken down.

The problem in trade in apparel and clothing is simply this: If technology is similar, if the method of manufacture is similar, if the quality requirements are generally similar, if overseas producers use American patterns, American size ranges, and American styling, then what is different? The only variable is wage costs, in a highly labor intensive industry.

A $6 an hour earning opportunity for American workers is highly uncompetitive with the 16 cents an hour earnings in the People's Republic of China, or 63 cents an hour earnings in South Korea, or 57 cents an hour earnings in Taiwan, or even $1.18 in Hong Kong.

Nor can we compete at all with earnings of 35 and 40 cents an hour in the Caribbean nations of Haiti, Santo Domingo, and Jamaica, and with earnings of much less than $1 an hour in Mexico. There, twin plants are setup so that the beginning of a production item can be made in the United States employing 20 to 100 people, and all of the work shipped across the Rio Grande, where great factories employing 1,000 to 1,500 workers will complete the items.

The MFA needs to be strengthened. There needs to be a more rational system of fair trade imposed on the trade in textile, apparel and clothing. One way is to have global quotas instead of individual quotas for individual countries, which are today honored in the breach because of the frailty of the mechanism of the MFA.

Second, I think the United States of America ought to issue quotas to the exporters who want to send their work into the United States. We have situations in Hong Kong and a number of exporting countries where brokers do extraordinarily well buying and selling quotas, and where quotas are issued and transshipments take place and it is very difficult for our Customs Service to know in a very accurate manner what does come into the United States of America.

If we issued the quotas, if we issued the licenses, under circumstances which can be simply administered, we would keep track of what comes into our country, and would be better able to conserve job opportunities which are desperately needed. Other job opportunities are not available in small communities when the apparel factories go out of business. There are few other viable work opportunities.

And in the major cities of the United States, the garment industry employs people in the work force who desperately need work—they are among the working poor to begin with, and when those jobs are washed overseas, whether it is in Baltimore, New York City, Philadelphia, St. Louis, Chicago, Los Angeles, Birmingham, AL, or elsewhere, it is the poorest who are suffering horribly. When the jobs go down in inner cities or in small communities, high tech, the wave of the future economy, has not come to them and there is no reasonable assurance that those jobs ever will.

And we depend on you, Mr. Chairman and members of the committee, to bring some rational thought to bear on this problem.

[Mr. Chaikin's prepared statement follows:]

TESTIMONY OF SOL C. CHAIKIN,

PRESIDENT OF THE INTERNATIONAL LADIES' GARMENT WORKERS' UNION

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY

UNITED STATES SENATE COMMITTEE ON FOREIGN RELATIONS

September 26, 1984

Thank you, Mr. Chairman and members of the Committee, for the opportunity to address the question of America's textile and apparel -- free trade or unfair trade. My name is Sol C. Chaikin and I am President of the 270,000 member International Ladies' Garment Workers' Union.

The apparel industry is an exemplar of light, labor-intensive manufacturing. Labor-intensive employment represents 42% of American manufacturing employment, roughly some 8 million out of 19 million jobs. Indeed, the nation's single largest industrial employer is the apparel-textile complex. These two industries are closely related, one as a supplier to the other. With 1.8 million jobs today (a drop from roughly 2.5 million in 1974), the textile-apparel complex employs approximately 1 out of every 8 American production workers -- more than basic steel, auto assembly, and chemical refining combined!

Labor-intensive apparel manufacture is, by and large, conducted on a small scale, with the average firm employing fewer than 50 workers. When an apparel factory, employing an average of 50 workers, mainly women, closes, it attracts little media or government attention. Even if 200 such shops around the nation close at or about one time, affecting 10,000 workers -- as is often the case -- the same lack of attention prevails.

The small firms which characterize the apparel industry are generally undercapitalized. While most major corporations are able to borrow funds below the prime rate, the typical firm involved in labor-intensive production must seek funds at factored rates which average far above the prime. Furthermore, fully half of all labor-intensive firms are unable to secure any credit from conventional sources. Capitalization, however, is not the crucial problem of the labor-intensive sector. The major problem is the trade policy pursued by the U.S. government.

At the height of foreign competition in the auto industry, 27% of domestic sales went to imports. In the case of steel, import penetration represents about 22% of the domestic market. I do not mean to minimize the impact of imports on jobs in these industries. I would, however, point out that such import levels were surpassed many years ago in most labor-intensive industries, some of which have been virtually eliminated. Home electronics is one such example and non-leather shoe manufacture is rapidly becoming another. In the case of apparel, in 1983 fully 45% of the domestic market had been taken over by imports. In women's apparel, the penetration rate was more than 50%. In the first seven months of this year, compared with the same period in 1983, apparel imports have increased a further 29 percent.

Some critics of American industry as a whole have contended that growing concentration of ownership has led to management's failure to invest domestically in state-of-the-art technology as well as to a decline in the incentive to compete. They assert that lack of competition has resulted in such management decisions as "planned obsolescence," and, perhaps more important, a general lowering of the quality standards of American products. This is not the case in the apparel industry.

In the apparel industry, no single manufacturer represents as much as 1% of domestic production and there are more than 25,000 firms engaged in cutthroat competition. Competition and ease of entry characterize the industry to such an extent that Adam Smith, were he alive today, would use the apparel industry as a classic textbook example, perhaps the only one remaining, of a truly competitive industry.

Minimal capital requirements provide entrepreneurs here and abroad with extreme ease of entry into labor-intensive industries, resulting in an intensity of competition unprecedented in steel, auto, aerospace and high tech.

The requisite machinery is low tech, of simple design and comparatively inexpensive. In labor-intensive industries, a factory can, quite literally, be set up overnight and no producer can exert any measure of control over its market; instead effective control is vested in a comparative handful of retailing conglomerates, which purchase the overwhelming share of output.

It is the adroitness of the individual worker, not the sophistication of machinery, that determines product quality and productivity. These circumstances characterize such industries worldwide.

In a labor-intensive industry, such as apparel production, wages are the largest single factor affecting production costs. Indeed, in labor-intensive industries, wages are among the lowest in domestic manufacturing. For example, American garment workers earn an hourly average of $5.85 (Union and non-Union), plus fringes. This compares with an average wage in manufacturing of about $9.10 per hour. In auto and steel, of course, the hourly rate of pay is considerably higher than the national average.

Despite an average wage in the lowest 15th percentile of U.S. manufacturing worker earnings, and the resultant competitive pricing practices of domestic manufacturers, importers of labor-intensive products have sought out those parts of the world where wages and living standards are even lower; where poverty effectively becomes the measure of "comparative advantage."

The loss of more than 300,000 jobs in the apparel industry during the last 10 years is directly and primarily attributable to a surge of imports from nations where wages are abysmally low and human rights and the right of workers to organize are virtually non-existent. In the case of women's apparel, more than 70% of imports originate in four nations: Hong Kong, with an applicable wage rate of $1.18 per hour; Taiwan at $0.57; South Korea, $0.63; and the People's Republic of China, where a garment worker earns the U.S. equivalent of $0.16 per hour.

In the developing countries, labor-intensive manufacture is made possible with the use of design, machinery and techniques either copied from the United States or freely given by U.S. importers. Marketing networks are readily provided by the major retailers, who increasingly have become direct importers. The "comparative advantage" provided by the developing nations is the great disparity in living standards between America and the nations which provide the bulk of labor-intensive products.

For this reason, jobless apparel workers in this country will not be reemployed as a result of "soft" loans, technological changes in manufacture or "shaking out" the industry. The only way American garment workers could become more "competitive" with overseas producers is if their wages were pushed below $2.00 an hour.

Parenthetically, it is no coincidence that American sweatshops have resurfaced in the American apparel industry at this time. Apparently, some unscrupulous domestic manufacturers seek to become more "competitive" with imports by hiring undocumented workers to work in garment shops for wages of $1 to $2 an hour. The reopening of this sad chapter in America's industrial history is primarily the result of increasing imports. These workers come to the United States to attain reasonably better living standards. But many of them find that the wages and working conditions of their homelands have been transplanted to the United States via the peculiarities of the immigration laws and the intense competition spawned by massive import penetration in the labor-intensive industries.

Theory tells us that our consumers should benefit because low-wage labor is reflected in retail prices. This is not the case in apparel. Invariably, imported goods retail for the same price as domestically produced items of precisely the same design and style.

How then have imports of labor-intensive goods captured excessive shares of their respective domestic markets? Clearly, imports are advantageous to the importing retail chains which mark up imports to bring the retail price to the same level as domestically produced apparel, providing bloated profit margins. Imported apparel, therefore, takes center stage in displays and advertising, as well as on the clothing racks.

Since 1956, imports of apparel have cost the nation more than 750,000 job opportunities and a consequent loss of many tens of billions of dollars in Federal revenue. To these losses must be added additional losses to state and local governments from forgone payroll taxes and lost property taxes which attend plant shutdowns. All these losses in governmental income must ultimately be borne by the taxpayer, who is also a consumer. In an era of alarming federal deficits, conserving every productive, tax revenue-producing, private-sector job would seem not only prudent but essential.

Sincere concern has been voiced about the effect of reduction of imports from the Less Developed Nations (LDC's) on efforts to eradicate Third World poverty. Our national experience with the Marshall Plan and with our policy toward Japan in the immediate post-World War Two period demonstrated the potential of trade as an instrument in promoting human rights and in raising living standards.

But such benefits have not attended America's policy of permitting what is rapidly becoming unrestricted imports from the Third World. American trade policy toward post-War Japan, for example, was only one component of a comprehensive plan that included the establishment of institutions necessary to the existence of a participative democracy, including the establishment of an independent labor movement. Such measures have been noticeably absent from our economic policies toward the developing nations.

Despite greatly expanded exports to the United States and other developed nations, a special report to the Secretary of the UNCTAD entitled, "Trade and Development in the Eighties," noted that income distribution in the Third World has become less equal and that the poorest 10-20% are actually worse off than they were twenty-five years ago.

In the developing nations, ruled by autocrats, it is easy to keep wages artificially low. In the developing nations, ruled by dictators of the political Left or Right, it is easy to keep the workforce in line. Among the incentives for such repressive measures is the certain knowledge that there are other developing nations eager to host foreign investment where the living standards are even lower. The outcome of this competition among developing nations to provide conditions most attractive to importers, corporate investors and lending institutions has been in stark contrast to our nation's original goal of fostering the emergence of stable, prosperous democracies worldwide.

In addition to keeping living standards artificially low, the emphasis on export-led Third World development in U.S. trade policy diverts development resources from the basic needs of the broad mass of Third World populations. Consider the irony of Communist China's decision to ration cotton cloth to its own people to permit ever higher levels of apparel exports to the United States; or the case of the Brazilian government, which ordered millions of acres of cropland shifted to the production of sugar cane which would then be converted to a gasoline substitute for the privileged few who own cars.

The distortions which occur when poverty becomes the measure of "comparative advantage" are amply demonstrated by the four major apparel-exporting nations. Four Asian regimes, as I have said, control more than 70% of the American market for imported apparel. Three of them, Korea, Hong Kong, and Taiwan, are demonstrably Newly Industrialized

Countries. They are capable, according to conventional wisdom, of sustaining economic growth without excessive dependence on labor-intensive exports. They are producers of steel, auto and high tech. The remaining 30% of the domestic apparel market is spread thinly among 142 other nations. This lopsided relationship serves to undermine much of whatever positive foreign policy benefits should flow from the sharing of our domestic market.

If sharing such extremely large portions of the domestic American market does not help either Third World workers, their American counterparts or the American consumer, who benefits? I reiterate, the evidence points to the retailing conglomerates in this country, to the banks and to the elites of the Third World.

A rational trade policy is crucial if we are to maintain what remains of labor-intensive industries and the jobs they offer to our own underprivileged. A policy based on the expendability of labor-intensive manufacturing, one that views some industries as "sunset" industries that should pass out of the picture and give way to high tech industries, is clearly unacceptable. Such a cavalier attitude ignores the human lives that lie behind employment and income statistics. Workers in labor-intensive industries are overwhelmingly women, with disproportionately large numbers of minorities and recent immigrants. These workers, many of whom are additionally burdened by poor education, and the inability to speak English fluently, have few other job options. With few skills beyond manual dexterity, they find a tough living in labor-intensive industry.

While wages in labor-intensive industries may be low in comparison to steel, auto, aerospace, rubber or refining, they are, nonetheless, higher than in comparable jobs in the service sector, which tend to gravitate around the minimum wage. Are we truly prepared to have our nation become one in which low paid workers will not be able buy back what is produced by capital-intensive and high tech industries? Are we prepared to see an America with ever-lower living standards?

The effects of joblessness among our well-paid workers, as well as the downgrading of higher paid workers, will translate into greatly diminished purchasing power. This should be a matter of deep concern in an economy whose growth and prosperity is fueled by consumer purchases.

Nor can we depend on the panacea of "high tech." While several high-tech industries now post impressive percentage gains in employment, during the remainder of the 1980's they will play a comparatively minor role in new job creation in absolute terms.

Using a reasonably broad definition of high-tech industry, including such sectors as electronics, petrochemicals, drugs, engines and turbines and aircraft production, high-technology accounted for 6.2% of average total wage and salary employment in 1982. By 1995, according to the most recent forecast by the United States Bureau of Labor Statistics, high-tech's share of employment will be only 6.6%. These industries will account for less than 8% of newly created jobs during the next decade. Furthermore, a substantial percentage of jobs created by high-tech firms are really low-skilled jobs providing less renumeration than work in basic industries.

The greatest number of new jobs are expected to be in such occupations as janitors and sextons, nurses aides and orderlies, sales clerks, cashiers, waiters and waitresses. America's demand for fast-food workers will far outstrip demand for computer operators. Only one high-tech occupation -- electrical and electronic technicians -- is projected to be among the top 20 job-producing sectors in coming years, and it ranks nineteenth.

Moreover, the low-paid, unskilled or semi-skilled jobs in high-tech are subject to the same external factors which have undercut employment in basic industries. Atari's decision to relocate 1700 jobs to Asia parallels similar decisions in autos, steel, refining, plastics and apparel. Nor is Atari an isolated case. Tandon Corporation, a sizeable supplier of computer components to IBM, with 1983 sales in excess of $300,000,000, moved all of its production to India and the Far East; Advanced Micro Devices recently announced the erection of a plant to employ 3500 workers in Thailand. Many more high-tech firms, in pursuit of the lowest possible wage levels, have expanded operations in the Third World in lieu of new domestic investment.

While the textile-apparel complex is sometimes referred to as "the most protected segment of the U.S. economy," massive and accelerating levels of import penetration demonstrate that existing measures are wholly inadequate.

Textile and apparel imports in 1984 will almost certainly be 1.4 billion square yards more than in 1983. According to industry figures, this increase in imports is the equivalent of 140,000 American jobs. This is the effect, however, in only one year. Cumulatively, apparel and textile imports have cost our nation more than 750,000 job opportunities.

In a 1980 letter to Senator Thurmond, President Reagan said that he would relate import growth from all sources to domestic market growth. In 1983, the rate of increase in apparel imports reached staggering levels. Apparel imports of all clothing (men, boys, women's, children's, et cetera) were up 14.3% over the prior year and imports of women's and children's apparel alone, the industry in which members of my Union work, were 20.4% higher than in 1982. In 1983, domestic consumption of apparel and textile products grew at a far smaller rate and, over the long run, the domestic market is projected to grow at a rate of no more than one and one half to two percent each year.

The rate of quota growth of textile and apparel imports from the People's Republic of China alone will exceed 10% per annum during the term of our most recently concluded bilateral agreement. This compares with less than one percent average quota growth for Hong Kong, Korea and Taiwan, which export to the United States about 60% of the total of all imports of textiles and apparel.

A rational system of fair trade is the first step in a policy which will conserve the jobs provided by labor-intensive manufacture. Central to such a policy would be negotiated import quotas, which would provide for global allocation of shares of the American market.

In the view of the ILGWU, reserving up to 25% of domestic consumption of labor-intensive apparel products for the output of all low-wage nations is more than an equitable amount. It assures the consumer of "freedom of choice" and permits domestic producers needed "breathing space".

Imports based on global quotas should be licensed by the U.S. Government as permitted in the Trade Act of 1979 as a means of insuring better control and in order to limit fraud, transshipment and counterfeiting. Amendment of Section 204 of the Agricultural Adjustment Act of 1956 to provide increased authority for unilateral controls of textile and apparel imports would also be helpful as a component of a more far-reaching trade policy.

Global allocation would also permit more of America's market to be shared by developing, rather than newly industrialized, nations. Moreover, developing countries would know the size of their U.S. market in advance and be able to plan accordingly. This would also prevent the disruptions which flow from the rapid shift of a developing nation's market share to countries where living standards are even lower.

Such a policy must also be maintained in force for as long as necessary. In a global economy where capital, designs, technology and "know-how" flow instantly around the world, American garment manufacturers will never be able to "compete" with low-wage overseas production. It is illogical, then, to consider limiting apparel trade to a reasonable share of the U.S. market as a temporary measure.

Only when developing nations have achieved a higher standard of living, and poverty is not their main attraction to American business, will the American apparel industry be able "to stand on its feet". Until then, quotas for apparel imports, as a key component of a rational system of fair trade, are the only effective and fair way to head off impending disaster for the apparel industry and its workforce, as well as for the American living standard.

I would like to address several aspects of the United States trade agreements program, specifically regarding the Multi-Fiber Agreement (MFA). The accelerating loss of market shares by domestic textile and apparel manufacturers has occurred despite the Multifiber Arrangement and the 28 bilateral agreements we have negotiated with major suppliers under MFA.

Further, the President's measures of December 16, 1983 cannot be taken as a serious effort to decrease the rate of increase in imports, nor can the new rules of origin accomplish that goal. Basic changes in the import program are needed if the President's earlier commitments to Senator Thurmond and other national political leaders are to be met.

We believe that the MFA requires some important revisions in order to fulfill the purposes for which it and its predecessors were created. And we believe that the U.S. government should take the initiative in effecting these changes. I will concentrate on what I consider to be the most important of these changes, although my proposals are far from being exhaustive.

Perhaps the most important of all would be a recognition -- both by MFA and our government -- of the right of all nations to protect their own working people and industrial structures. This should be an elementary premise. However, the fact is that our government does not do so, at least with respect to the apparel and textile industries. We have allowed imports to grow at astronomical rates from year to year, although every other country continues to seek to protect its own people. Certainly, in an industry such as ours, reciprocity in trade is not the answer. Perhaps "reciprocity" in recognizing the needs of a nation's working people should be the basis of such a program in this industry.

Another critical revision needed in MFA is insuring that all fibers -- natural, synthetic and blends -- be covered, not merely cotton, wool and man-made fibre products. The exclusion of linen, ramie and silk from controls is a loophole which permits exporters and importers to circumvent established quotas.

We should, once and for all, recognize that if the MFA, among other purposes, is supposed to assist underdeveloped countries to develop, some of these countries may eventually become "industrial nations." This is already certainly the case with Taiwan, South Korea and Hong Kong, all of which have long ceased to be "developing nations." As NICs -- newly industrialized countries -- manufacturing autos, steel, ships and high tech, not merely the products of labor-intensive industries, they are no longer in need of MFA protection for their apparel and textile exports.

There are many other needed areas for revision of MFA under U.S. government sponsorship. We need to eliminate minimum growth provisions, in view of our relatively static domestic apparel market in recent years. Flexibility provisions should also be eliminated.

The United States maintains in words the right, as an importing nation, to prevent market disruption, while allowing these provisions to continue in effect. The simple fact is that an importing nation should know its own market and should know how these two provisions fly in the face of preventing market disruption.

Such changes in the structure of MFA may give the recent actions of the Administration some significance. Until this happens, however, these actions will serve primarily as window dressing. Imports will continue to flood the country, increasing massively from month to month and year to year, and more and more jobs will be lost in our country. To suggest, as some key Administration figures have, that we are the most protected industry in the country, is farcical.

It is also no great secret that serious discussions are going on in high government and some business circles to find a way to circumvent effectively the provisions of Item 807. We continue to maintain, as we have for many years, that Item 807 should be repealed to save jobs in our own country.

The effort to revise Item 807 and increase Caribbean and Central American imports, is moving ahead at a rapid rate. If what we have heard is accurate -- and I think it is or I would not be repeating it here -- the plan is to increase imports from the Caribbean and Central American countries by executive action, bypassing Item 807.

American apparel marketers, including some domestic apparel as well as textile manufacturers , would be encourages to move apparel production to countries without quotas, those with unfilled quotas or to raise quotas where they exist. There is even serious talk in some government and marketing circles, including people on some very high levels, to count five items of apparel as one item for quota purposes. Such a program would offer importers lower labor costs and higher profits, as is the case with imports from Asia. The quid-pro-quo is that importers and marketers would lend their support to the Administration's CBI policy. The damage to domestic employment and to the many thousands of small apparel manufacturers would be overwhelming.

The extent to which this seriously considered program will harm employment and manufacture in this country is underlined by the fact that it does not provide taking away some of the Asian quotas, including those of NICs, whose import role I have already mentioned. Over and above the current import-to-consumption ration of more than 50 percent would be added another 30 percent or more of imports from the Caribbean and Central America.

As I conclude my remarks today, I urge this Committee to investigate this possible turn of events as a matter of the highest priority -- before the program becomes a reality, and drives yet another nail in the coffin of domestic American apparel manufacture.

Senator **Mathias**. Thank you very much, Mr. Chaikin.

Before we get into some dialog and some questions, with the concurrence of Senator Pell, let me recognize Senator Pressler, who wants to make a statement at this time.

Senator **Pressler**. Thank you very much.

Let me say that I have learned a great deal listening to the testimony. I want to commend you, Mr. Chairman, and Senator Pell for holding these hearings. In this trade matter, we all have points of view, and as I dig into it I realize that our industries are picked off one at a time by foreign interests. If we are to have a successful trade policy, all sectors of the economy should get together.

What I am about to say involves agriculture and the Chinese retaliation. But before doing that, let me say that I have been meeting with the United Auto Workers on domestic content to see if it could be used to encourage Japan to open markets to U.S. products. The provisions of the bill would not go into effect if Japan opened its markets wider to U.S. products.

There is a tendency in this whole trade area for each group to go off by itself, and we in agriculture need help sometimes. I will read your testimony, because I must go on to another hearing but I want to compliment your presentations here. I did not fully realize some of the problems in the textile and apparel industry.

Textile trade matters have presented some interesting and difficult complications for U.S. farm export efforts. As a result of a disagreement over textile trade between the United States and China in 1983, the Chinese stopped purchasing U.S. wheat for several months. Eventually the dispute was resolved, but the dispute resulted in the loss of several million dollars worth of wheat export sales. I think, Mr. Chairman, that you have been very kind in calling on Mr. Carl Schwensen, who will be appearing later on behalf of the Wheat Growers Association.

Once again, new textile import rules have been proposed and the Chinese are again threatening to stop purchasing U.S. grain. The loss of this market could mean a reduction of $2.8 billion in wheat export sales annually. With the current problems in our farm economy and difficulties in increasing farm exports, the United States cannot afford to lose such a huge amount of export sales.

I am a strong advocate of free trade if it is truly free trade. In international trade negotiations over the past two decades, the United States has made too many concessions in the agricultural area. I believe the United States can still compete on the world market if we have free trade. Unfortunately, in too many areas, either import restrictions or domestic programs distort international trade so that it becomes something less than free trade.

I have called on the administration to initiate another round of multilateral trade talks to try to resolve many outstanding international trade disputes. The problems in textile trade, agricultural trade, steel trade, and all trade could then be addressed. If such a round of trade talks were to be held, it would be essential that the United States take a tougher stand and work for real free trade.

In the meantime, I hope that the trade implications for agriculture would be carefully considered before any final action is taken on new textile import rules or other proposals which might threaten agricultural exports.

Mr. Chairman, I thank you again for calling these hearings.

Mr. FINLEY. Mr. Chairman.

Senator MATHIAS. Thank you, Senator Pressler.

Mr. FINLEY. Before Senator Pressler leaves, may I make one comment on that?

Senator MATHIAS. Surely. I suspected that you would.

Mr. FINLEY. Well, I hesitate to say that I am an expert on agriculture, because, believe me, I am not. But there is one point that I would like to put into the hopper. What the Senator raises is a concern. There is no question that there is the concern of retaliation and whether there will be or there will not be any by the wheat growers and so on.

I am sorry we do not have anybody here from the Cotton Council or the wool growers. But one of the major customers of the U.S. cotton growers is the U.S. textile and apparel industry. So it is not simply that wheat may be retaliated against—and that is a concern. But if you lose a textile and apparel industry, you are going to lose a big hunk of U.S. agriculture, particularly in terms of the cotton growers.

And the same thing for the wool producers. Practically everything they produce goes into the U.S.-made—the piece goods that go into U.S. apparel. So when we talk about the problems of agriculture, again, it depends where we come from. But if you look at the total, American agriculture has a tremendous stake—particularly I am talking about the cotton growers and the wool growers—in the continued health of the domestic U.S. textile and apparel industry, and that is also U.S. agriculture, Senator.

Senator PRESSLER. Yes, and I would certainly agree that this is a problem.

Our trade balance has been made up largely through the sale of agricultural products, since that is one industry that has been competitive on the world market. Our farmers and ranchers also have great problems making a profit. A lot of them are in dire economic straits.

I know that a lot of apparel workers also are working for wages that are not as attractive as they are in other industries. But in my State, particularly the grain producers, the wheat producers, find that they are directly retaliated against when we do put some sort of restrictions on textile imports.

Textile workers may have economic problems but farmers are also experiencing very serious economic difficulties.

Mr. YOUNG. Senator Mathias, I would like to ask Senator Pressler one question, or to comment on the wheat question.

Senator MATHIAS. The normal course of a proceeding is for members of the committee to ask the witnesses questions. [Laughter.]

However, if Senator Pressler has no objection, we will reverse the procedure.

Senator PRESSLER. I do not mind. Go ahead.

Mr. YOUNG. Thank you, though this is more of a comment than a question. I come from an agricultural area, too, and I am very sensitive to the needs to which you refer, and agree that that sort of thing must be taken into serious account when these matters are debated.

However, I think it is important to point out that what happens in wheat growing in China can also have an important bearing on these kinds of things. I refer to a September 25 article pointing out that China's grain harvest has been strong, continues to be strong, and I think this simply does have a bearing on the whole question and needs to be mentioned at this time.

Senator **Pressler**. Thank you.

I was in China recently and they are trying to produce more agricultural products, but China remains one of our largest markets.

As you know, there is great concern about our current balance of trade. Agricultural trade is our major positive factor in that balance. The reason our agricultural products are so competitive, is because our farmers are so efficient and are not paid very well. Frankly, I want our farmers to be paid better.

In any event, China remains a large market for our farm products. Farmers are in the position, especially the wheat growers of being retaliated against. This point will be stated more eloquently by Carl Schwensen. If we are going to give some protection to one industry, we should provide that protection to all industries which will need such assistance.

But each section of the economy, as I said, is now played off against other sectors. Believe me, you talk about wages being low and people being in economic trouble; nobody works for less than farmers and ranchers. In my 10 years in the Congress I have never seen so many farmers and ranchers in financial trouble. We should not help one group at the expense of another, and that is what the wheat growers are concerned about.

In the past, China has retaliated against restrictions on textile imports by purchasing wheat from Argentina, Canada, and Australia, instead of from the United States. Because of that retaliation in the past, farmers want some consideration before new restrictions are imposed.

Senator **Mathias**. If there is no further dialog on this subject, let me pose a question to Mr. Young. Fortune magazine, the Wall Street Journal, and the New York Times, have all recently been reporting on the textile and apparel industries, and according to those publications the industry is enjoying very strong earnings in 1984.

Is that an accurate report?

Mr. **Young**. I think there probably are companies and segments of the industry that are enjoying strong earnings. That is not true for all companies or for the total industry. I can speak for my company and it is not enjoying good earnings in 1984.

Mr. **Chaikin**. May I respond to that also, Senator?

Senator **Mathias**. I saw both you and Murray responding very vigorously to that question.

Mr. **Chaikin**. You know that we have that capacity.

No. 1, so far as the apparel and clothing industries are concerned, the year 1983 was a disaster and the year 1984 more than that, with the exception of just a handful of companies which are manufacturing companies in the United States, but which have devoted more than half of their sales volume to importing themselves items of children's and ladies' apparel, from Southeast Asia primarily. So where you do have an apparel company which in 1983 and 1984 showed a reasonable profit, you can be certain that they are themselves major importers of these items.

Those of our small employers, the small entrepreneurs who do not have the ability to go overseas, who cannot commit enormous amounts of money on letters of credit, who cannot afford to have agents resident in the Far East making the arrangements for the imports, et cetera, who depend entirely on sales of domestic produced apparel to the great merchandisers of America, they have been a disaster and the bankruptcies have been increasing by leaps and bounds.

So far as the textile industry is concerned, they have had a reasonably profitable year, those who have survived over the last 6 or 7 years, because of the increase in home building in 1983 and in 1983 and 1984 the increase in domestic auto manufacturing, because the fabrics that are made by many of the textile corporations go into home furnishings, cover furniture, draperies, curtains, things of that nature, and go into the seat covers and other items in automobiles.

So you may have a mixed bag. But so far as the manufacture of domestic apparel and clothing are concerned, the great number of entrepreneurs have suffered horribly.

Senator MATHIAS. Mr. Chaikin, can I supplement your statement? We are turning the tables here on the questions and answers. You said women's and children's apparel.

Mr. CHAIKIN. That is right.

Senator MATHIAS. Let me amend that to women's, children's, and men's apparel, because I had a personal experience recently. I needed a raincoat. My own raincoat is so bad that my family and my staff hesitate to be seen with me on a rainy day.

So I went out this summer to buy a raincoat and, since we have manufacturers in Maryland, I was very careful not to buy one on sale from some other source. I went to a factory outlet in Maryland and I bought a raincoat, with which I was very pleased. It fitted well, I liked the style.

It was not until I got home from this factory outlet in Maryland that I noticed up on the hanger, the little hanger strap, in very small letters it said "Made in Korea." So I have sent it back, by the way.

Murray?

Mr. FINLEY. With regard to the textile industry, let me say that 1983 was a better year, and in apparel it was somewhat better, very slightly, but 1984 is changing.

Let me tell you what is happening. We have a number of things. One of the very major apparel, particularly in the blue jeans, did not have a disastrous year but almost did. The whole garment business has gone down the drain, both on the apparel and the textile side.

You have some very major textile companies that are and will experience some severe economic difficulties. The downturn in housing is now beginning to have an effect on the domestic textile industry, that portion that is involved with home furnishings.

If you look at retail sales and apparel, they are now soft and are dropping. What has happened, and our information is that the pipeline has been filled—you have had a replenishment of inventories. That is now happening and you are now getting a reluctance in terms of retailers buying.

I am telling you that we are going to see in 1985—and this is what our manufacturers tell us on the apparel side—you are going to have two types, a soft early buying because of the inventory, or those that have committed, you are going to have a reduction in reorders, depending on which segment of the apparel industry is in effect.

You have some companies, not all of whom are importers, who are doing reasonably well, but when you have a major industry such as this, you are going to have a few that are. But by and large, you are getting a softening, and they now tell me they expect 1985 to be a definite softening of the apparel industry which will obviously have the effect on the textile industry.

Now, what you referred to, let me tell you, the problem that came down on the company you brought from was one of their major competitors decided, for whatever reasons, to import some 350,000 raincoats, men's, from South Korea. And they felt that the only way that—the whole end of it is that they had to do it, so they imported some at the low end price—90 percent of what they make is domestically made, but the low end, because they felt a major competitor of theirs became a major importer, they felt that they were caught.

Frankly, we permitted them to do it on one thing. They had to guarantee that domestic production would not be less than it was prior to the imports. So at least we guaranteed our workers in this case, in this particular one, that they will have as many bundles as they had before this small amount of imports took place. But we are unhappy with the whole picture, Senator.

Senator MATHIAS. The Congress necessarily has to look not only at cases of individual hardship but also at the large national impact of all of these problems.

In 1981, the Labor Department made a study which found that textile and apparel workers who had been permanently laid off, received higher incomes in the 5 years following their layoff than they would have if they had kept their jobs in the apparel and textile industries.

Are any of you familiar with that study?

Mr. FINLEY. No; it is the first time I have heard of it.

Mr. YOUNG. No, I am not.

Mr. CHAIKIN. I have heard of it before.

Senator MATHIAS. Well, I am wondering if you could comment, first, whether it is true, and second, whether there is any implication that could be drawn from that where if you restrict imports, you are encouraging workers to remain in a relatively low-wage industry rather than making a transition to a different job in which they would do better.

Mr. CHAIKIN. Let me respond first that we take no particular pleasure or pride in representing workers who are among the working poor. Our union does well for them, but we operate in an industry that is extraordinarily competitive, and has a very chilling effect on our ability to increase the wages and better the conditions of the workers. And if you add to that the competitive nature of imports which are impossible to meet, then you know what our circumstances are.

That study, like many other studies, did not take all of the people who were laid off into account. We have lost 372,000 jobs in apparel within the last 8 or 10 years.

Now, it could very well be, depending on the areas where the layoffs took place, that other alternative job opportunities would pay better. For example, when layoffs occur in New York City, the alternative is either to go into the service end of the industries that are represented in New York City or go on welfare. I think you, Senator Mathias, know about the increase in the welfare load in that great city, and the increase in the welfare load in Philadelphia and Chicago where these layoffs have taken place.

Department of Labor statistics have indicated that service sector jobs pay about 65 to 70 percent of the wage rate of manufacturing jobs. Even compared to the low wage rates in the making of apparel and clothing, service jobs in New York City do not return the average earnings of garment workers either today or 5 years ago.

Among those workers who are located in small communities where the earning opportunities have disappeared and job opportunities have disappeared in the apparel industry, a number have had an opportunity to be reemployed in industries that have moved into some of the various communities. Those communities are located in the Southwest, the Far West, and the Southeast parts of the country.

So it is a very mixed bag.

The argument that if you conserve even these entry level jobs in the United States that you will be preserving a low wage system does not hold water. I have said many times, and I would repeat it here, that if Westinghouse, General Electric and IBM built plants in New York City to employ 10,000 to 15,000 workers in each of the five boroughs of New York, I would gladly liquidate the apparel industry and move the workers into those higher tech, higher paying jobs.

But the fact of the matter is that since the first time I uttered that challenge, not one additional job has been created by these great national corporations, not in New York City. They have created them in 60 other countries around the world, as you well know.

So the statistics that you might read that emanate either from the Department of Labor or one other area do not tell the story. We are not asking to impress upon the workers in the United States, even though they are entry level workers, a low wage earning opportunity. Quite the contrary—what we are saying to you is that there is no provision to provide decent employment for the hundreds of thousands of workers who are denied present opportunities for work and who have been out of work.

We have no quarrel with anybody who says we should upgrade the wages and upgrade the conditions of work in our industry. Nor do we complain about new, decent paying jobs in other industries—they just do not exist.

Mr. FINLEY. Senator, may I respond?

Senator MATHIAS. Yes.

Mr. FINLEY. Senator, that is the key thing we are talking about here, and I would agree with what Chick said. If the 2 million textile or apparel workers could work and make $10 an hour, I might be unhappy because our union would be a lot smaller, but that is a personal problem.

Mr. CHAIKIN. You might represent them.

Mr. FINLEY. But that would be a good thing.

That is not—you know, really, nobody says keep people at $5½ or $6 if they can make more. We are not seeking to protect such a situation.

Now, in terms of that study, let me just point out, as Mr. Young said, in August of this year the unemployment in apparel was 12½ percent, in textile, 10.2. It is hard to see where all these people who are getting either 5 percent more unemployment than the national average of 7½, or almost 3 percent, where they are all beneficiaries. The point that I was trying to make, is how do you make for a reasonable adjustment? How do you make it possible for people to go from a lower to a higher paid job.

Obviously if you are going to dump a half a million people on the unemployment rolls in the next couple years, there is no adjustment with high unemployment. So the point I was trying to make in my presentation and my paper, that if you had a properly administered MFA, you could have then an adjustment over time which is doable and digestible without all the hardships and costs of severe dislocations both to the employer and to the employees. But if you just throw it out the window, then you are going to have what you have now, 12½ percent, hundreds of thousands of people without any prospects of near time adjustment.

Senator MATHIAS. We have to move on to the next panel, but I understand exactly what you are saying. I remember years ago I was walking down a corridor in the House of Representatives and Carl Vinson grabbed me by the lapel, and he said, you represent the largest manmade fiber plant in the world, and I want you to come to this meeting, which I did.

Well, you know that largest manmade fiber plant in the world is closed. The thousands of Celanese workers that worked there are out of work, and the unemployment level in that community is among the highest in the country because of that and other problems in the area.

So I am well aware that there is not always some higher paid job to go to. If the community does not afford a higher paid job, they stay out of work for years and years and years.

One final question, and then we must move on to the other panel, and I will address this one to Mr. Young.

Mr. Finley complains that the multifiber agreement has not been properly enforced, and I lay that question aside for a moment, but the fact is, when it was first established, the agreement was contemplated as a temporary expedient.

Now, here we are after what, 10 years, talking about better enforcement and more stringent regulations.

Has the industry improved its productivity so that the Congress can make a good case for more stringent provisions of the MFA?

Mr. YOUNG. I would like to share Mr. Finley's comments with regards to the fact that MFA has provided some degree of predictability but not nearly what it could have had it been properly enforced, and lots of things are happening to hopefully improve that. We hope that in the new negotiation coming up that further improvements will be made.

With regard to the question of productivity, I cannot spit out numbers and figures, but I can certainly say that there is tremendous activity in our industry, and from our association.

Senator MATHIAS. Can you provide for the committee some further comment on the productivity question, because let me tell you that any attempt to extend the provisions of the MFA which are viewed simply as sheltering an inefficient and unproductive industry, will be much more difficult than if we can demonstrate that there has been productivity notwithstanding the protection that MFA has provided.

Mr. YOUNG. Yes, I would like to say that in general that is happening. Productivity is improving substantially, and tremendous investments are being made. As far as the numbers are concerned, we will provide you with information. I do not have any with me.

Senator MATHIAS. We will hold the record open for a reasonable amount of time.

Mr. YOUNG. You will receive something from us, and apparently from Mr. Finley as well.

[The information referred to follows:]

PRODUCTIVITY IN THE U.S. APPAREL INDUSTRY

Productivity in the U.S. apparel industry has improved significantly in recent years. For example, the standard minutes to produce a jean, a dress shirt, a dress slack and a suit coat have declined dramatically between 1970 and 1982 with the use of new equipment.

DECLINE IN MINUTES OF LABOR TO MANUFACTURE FOUR GARMENTS IN THE UNITED STATES

[Minutes per garment]

	1970	1982
Jean	10	8
Dress shirt	13	8
Dress slack	32	23
Suit jacket	130	85

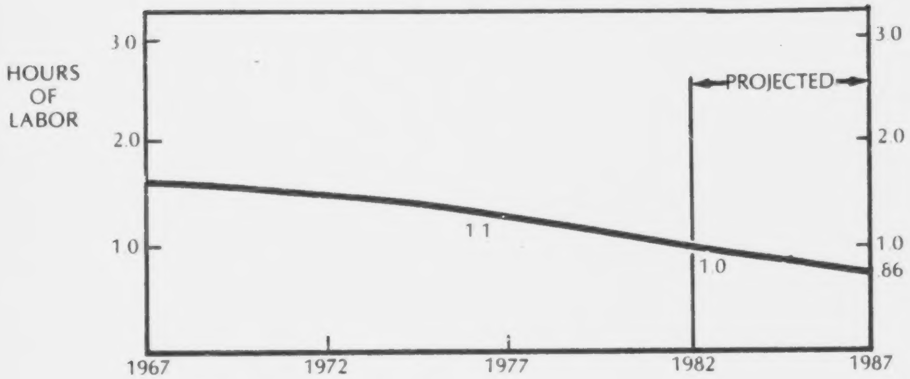
The average gain in productivity in these four garments between 1970 and 1982 was about 35 percent. These gains were made by utilizing the most efficient equipment available.

A major consulting firm in the apparel industry, Kurt Salmon Associates, developed data that shows the gain in productivity made by U.S. apparel firms since 1967. During these 15 years, U.S. apparel firms were able to increase output 38 percent with the same labor input. (See chart.)

Increases in productivity have been made throughout the apparel plant. Computer generated patterns and computer controlled cutting of fabric have reduced cutting time and improved fabric utilization. In many sewing operations one operator now operates several machines and these machines automatically or semi-automatically sew apparel parts together. Similar productivity gains have been made in apparel finishing and packing.

The apparel industry is far more efficient today than it was 10 or 20 years ago and will continue to increase its efficiency in the future as new technology is available.

PRODUCTIVITY PER
1 U.S. STANDARD DIRECT LABOR HOUR



*SOURCE: KSA

Mr. **Chaikin**. May I respond very briefly in addition, Senator?

There has been discussion of "conditionality," whereby an American industry would deserve some help on condition that it improves its productivity. But I must question whether our productivity has been lacking in the past, and whether we can improve our productivity to the level of workers and industries in other countries.

There have been some technological innovations, but they have been very minor and almost miniscule, in the making of apparel and clothing. And they are also applied not only in America, but in Hong Kong, South Korea, Japan, or anywhere else. There is no magic advantage that the workers and the employers in those countries have over and above the domestic industry. There is improvement, and there is improvement, and it is slow, and it is difficult and hard to come by because of the nature of the industry.

There is a little more improvement in some of the standardized items of production, men's structured clothing perhaps as against ladies' garments, but that is perhaps because of the impact of style and fashion, and the different materials that are used in men's clothing and ladies' apparel.

So it would be unfair to ask the apparel industry whether productivity has increased dramatically. The fact of the matter is that if productivity increases in the United States, almost within 24 hours the technological innovation is in place overseas and vice versa. We know how garments are made in China. We know how they are made in Hong Kong, Taiwan, and South Korea, and any improvements in productivity that come about there, we almost immediately translate into domestic production.

There is a great interaction between the domestic industry and imports. You will recall that I stated that American styles, creativity, American patterns, American size ranges, and American quality requirements were installed in factories overseas, and the only variable is the fact that our wage rates, average union and non-union across the country, are about $6 an hour, compared to an average 16 cents an hour in Red China and 53 cents an hour in South Korea.

You can improve the American productivity sixfold, which is impossible to do at the present state of the art of the technology, and still not be able to compete with the workers who work for such meager wages in South Korea.

I do not think that anybody ought to be misled by asking our industry what cannot reasonably be done. You can ask the steel industry to improve their productivity because it did not plow back into its production processes enough money to keep up-to-date. The same may have been true of automobiles, but automobiles in 2 or 3 years will have the same assembly line setup, the same robotization setup, the same inventory setup as their competitors, and they are improving their productivity. And you might have insisted that that be a condition of a Chrysler guarantee. But it cannot be a condition so far as the apparel industries are concerned because we are quite alert to it. Manufacturers, as John Young has indicated, go to all of the shows to see the latest machinery, they spend money for modern machines that they can hardly afford, because they really do not have the kind of markup or profit opportunity in the making of apparel and clothing as exists in the heavy industries in the United States.

Mr. **Finley**. Senator, may I give you the figures? I will take one second.

The **Chairman**. I will give you 30 seconds.

Mr. **Finley**. This is from the U.S. Department of Commerce, January 1983 U.S. Industrial Outlook, and let me give you the productivity. It grew at a compound rate—this is for 1973 to 1981—of 3½ percent for the textile workers and 2.3 for apparel, more than the national growth of productivity in manufacturing. So from 1973 to 1981 you had a larger productivity growth.

The textile industry did it because they had a tremendous expenditure for capital plant and equipment.

The apparel industry, with all due respect, is now developing robotization, we are spending money on it. There are going to be dramatic changes. Japan is allocating $60 million to develop automation in the Japanese apparel industry. They expect to have an automated plant by the year 1990.

The Common Market is expending some $24 million.

We—and our union has put up almost a half a million dollars toward productivity in the United States with the industry, half a million dollars from the union alone—we now have a program for this year of over $8 million where we are developing robotization in not only the men's apparel, in the apparel industry, the ability to move it from station to station, to place it, vision system, computer, picking up the material by robots. It is doable.

And when you do that, by the way, Senator, you reduce the labor content, and you then become able to compete, because as you reduce labor content, the cost differential becomes less. You develop the U.S. machinery industry. You save the textile and apparel industry.

It will only be doable, Senator, if there is some orderly continuation in the growth of trade. If we are going to be flooded, then these tremendous efforts will go to naught.

But even from 1973 to 1981 there has been a dramatic growth in productivity in the textile and apparel industries in the United States.

Senator MATHIAS. You have the last word for this panel.

Thank you, gentlemen.

The next panel, Mr. Simeon Gluckson of Daniels, Houlihan & Palmeter; Mr. Carl Swenson, executive vice president of the Wheat Growers Association; Mr. Colton Hand, a member of the board of directors, Consumers for World Trade; and Mr. Angelo R. Arena, chairman and chief executive officer of Hutzler Bros. Co.

Gentlemen, do you have any preference as to who goes first?

[No response.]

Senator MATHIAS. Mr. Gluckson, why do you not begin?

STATEMENT OF SIMEON GLUCKSON, CHAIRMAN, SUNRISE KNITWEAR CO., INC., NEW YORK, NY, AND CHAIRMAN, TEXTILE AND APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS; ACCOMPANIED BY MICHAEL P. DANIELS, COUNSEL, TEXTILE AND APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, WASHINGTON, DC

Mr. GLUCKSON. Thank you very much, Senator.

Mr. Chairman, my name is Simeon Gluckson. I am chairman of the Sunrise Knitwear Co. in New York.

Senator MATHIAS. Let me interrupt you and say as I did to the last panel that your written statements will be included in the record in full, and that if you can summarize them, I think that will leave us more time for some discussion.

Mr. GLUCKSON. Well, thank you very much.

I intended to do that, but I did want to introduce myself and just give you my name and affiliations.

I am also chairman of the Textile Apparel Group of the American Association of Exporters and Importers.

I do have another statement, sir, and that is the more I come to Washington, I realize how complex your job is. Whether it be textile trade, international trade, there are no simplistic answers, and I would just like to make the following statement, if I may. Trade is the cornerstone of international relations, and when the major sovereign power in today's world allows domestic politics to interfere and dictate its trade policies, every nation it conducts business with has a right to be concerned about its own survival and interests.

Rather than encouraging a mutual trust and interest, we are driving a deeper wedge between the have and have-not nations. After encouraging and enticing them to partake of the international credit system, we are now hindering their ability to manufacture and export goods to earn revenue to satisfy their obligations. We are also encouraging retaliatory action instead of cooperation.

Now and in the years to come we must develop an international relationship that embraces the needs of all. Wendell Wilkie's vision of one world is not as farfetched as it seems.

The speakers in the panel before us brought some very vital considerations before you, sir, and I would like to recommend that one day we have a dialog where we sit together around this table and can have the kind of give and take you allowed earlier where questions were asked from the panel and answers were given from the committee, and vice versa, and we to them and they to us, so before you, you can see an interaction, because some of the statements made bear upon some of the relations that you will be discussing. One is the softness in our market to the end of 1984 and 1985 brought about by scare tactics, brought about by the September 7 rules, December 16 promulgation by the President where we then came in with the new rules and regulations on offshore production.

I think we have a problem facing us. We must come back to the time of stability when a contract was a contract with our foreign trading partners and they knew what to expect. If we meet in good faith, negotiate in good faith, the textile apparel people will be satisfied, the wheat growers would be satisfied, and we will be going back to being the kind of nation held up all over the world to be looked at and admired.

And so, sir, I just would appreciate it if you would read our brief. I also would appreciate if more time were taken to input from all phases of industry, not only labor, not only the farm belt, not only the importers, but all together so that both Commerce and State can work hand-in-hand to forge the kind of links that we would like to see overseas.

Thank you very much.

[Mr. Gluckson's prepared statement follows:]

EX IM
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Textile & Apparel Group

Statement of Simeon Gluckson
on behalf of the
Textile and Apparel Group
of the American Association of Exporters and Importers
before the
Subcommittee on International Economic Policy
Senate Committee on Foreign Relations

September 26, 1984

Mr. Chairman, Members of the Committee:

My name is Simeon Gluckson. I am the Chairman of Sunrise Knitwear Co., Inc. I appear before the Committee in my capacity as Chairman of the Textile and Apparel Group (TAG) of the American Association of Exporters and Importers. I am accompanied by Michael P. Daniels, Counsel to TAG. The members of TAG are leading importers, importer/manufacturers and importer/retailers of textile products, largely apparel. Our members account for a substantial portion of the trade.

It would be difficult to convey to the Committee our complete frustrations with government textile policy, the textile program and its administration. Actions taken by government are unfair, arbitrary and unjustified. They are motivated almost solely by political considerations, and are violative of both United States law and international obligations of the United States.

What started, twenty-eight years ago, as a temporary program to give time for adjustment has become a program of permanent protection. Despite repeated pledges of liberalization, embodied in international agreements, we have experienced a constant tightening of the regime, which accelerates in presidential election years.

It has become intolerably difficult to run our businesses and make forward plans. On December 16, 1983, under pressure from the textile lobby, the Administration issued new criteria for calls leading to the imposition of quotas. These rules clearly violate the Multifiber Arrangement. Since that time there have been 119 calls leading to new quotas. Since January 1, 1983 there have been 196 new quotas covering trade of 1.6 billion dollars. At present we estimate that 90 percent of the apparel trade is covered by quota. So far in 1984, we have experienced 75 embargoes.

We have heard that these actions are justified because of increasing imports. As the attached table shows, in this period of economic recovery and growth the textile and apparel industries have also grown and prospered, with no evidence of injury. Production, sales, employment and profit are all significantly up.

The most recent protectionist measure has been the new rules of origin promulgated in August. These rules completely overturn principles of law established since 1908 and clearly enunciated by court decisions and administrative rulings. All of our agreements with supplying countries were based on existing law and importers relied on these rules in entering into binding contracts and forward planning. These actions have created utter chaos in the market place. They place impossible burdens of documentation on importers. They are unjustified and unworkable.

It is important to emphasize that the new rules and quota actions were taken without adequate notice or an opportunity to comment or contribute our ideas and expertise. We are in the hands of a bureaucracy, operating by fiat, unrestrained by the rule of law, subject to intense political pressure, and isolated from the very people it affects.

In another unjustified action the textile industry and the textile and apparel unions have brought 13 cases under the Countervailing Duty Act (CVD) against small suppliers who are not eligible under United States law for the injury test or an investigation by the International Trade Commission into the question of injury.

The United States should have no interest in restraining imports which are not causing injury. As the Commerce Department pointed out in initiating these investigations (see attachment) these countries account for minute portions of domestic consumptions and were there to be an investigation undoubtedly there would be a finding of no injury.

The petitions are comprehensive, covering all textile products exported from these countries. This includes products where there is almost no exportation. Such cases could not have been brought if the injury test were applied.

The United States takes the position that countries cannot join the Subsidies Code and are not entitled to the injury test unless they enter into agreements to eliminate or phase out export subsidies. Yet the position taken by the United States in recent years and the definition of subsidy has made it difficult if not impossible to conclude such agreements despite protracted negotiations. No such agreement has been concluded since 1981 although a number of countries have made good faith efforts to negotiate.

This allows the domestic textile industry to utilize the countervailing duty laws to cut off imports from small countries or use these cases as leverage to obtain other protective measures since neither the United States Government or exporting countries can tolerate the trade results of an automatic application of our law.

Despite these consequences the United States Government takes the position that it is powerless under the law to prevent such actions and that the matter is entirely in the hands of the domestic textile industry. This is in the face of a clear undertaking in the most recent extension of the MFA that problems would be solved within the framework of the MFA without resort to other measures.

Exporting countries have bitterly complained and brought this matter before the Textiles Committee (the governing body of the MFA), complaining that these CVD actions and the new rules of origin are illegal under the MFA and nullify the arrangment. The matter is currently under consideration in Geneva.

United States law must be amended to bring it into conformity with the GATT and accord the injury test without precondition in CVD cases. American industries are entitled to protection only if they can prove injury.

Taken together, the multiplicity of calls, the rules of origin and the CVD cases have brought the United States into sharp confrontation with the textile exporting nations, which include almost all countries, developed and developing, of importance to the United States in its forign relations. This is bad foreign policy, bad trade policy and bad domestic policy.

Our trading partners have resorted to retaliation, which cost American farmers over one-half billion dollars in trade with China. There are threats of further retaliation. If foreign suppliers come to believe that the only way to deal with textile protectionism is by fighting fire by fire through retaliation, we are not only hurting American exporters but threatening the entire world trading order.

In the end American exporters and consumers will pay the price for politically expedient, but short-sighted actions --- exporters in lost markets and consumers in a hidden tax and a concealed subsidy to domestic industry.

It is imperative that textile and apparel actions be brought into the mainstream of American trade policy. These industries should no longer be treated as an isolated industry, and trade policy should not be continuely abused to appease the domestic textile industry. The MFA has been a failure due to violations of the agreement. It either must not be renewed when it expires in 1986 or fair procedures and a definite and reliable plan of phasing out of controls must be formulated and guaranteed.

We hope that this Committee next year will take the lead in a thorough investigation of the textile program in the light of American trade and foreign policy and the economic objectives of our country. We stand ready to cooperate in such an endeavor.

Thank you.

SELECTED STATISTIC

Textile Mill Products

	1982	1983	Percent Change	January - July 1983	January - July 1984	Percent Change
All employees (000's)	749.4	743.5	(0.8)	730.5	760.9	4.1
Production Workers (000's)	642.1	641.1	(0.2)	627.9	658.9	4.9
Production Workers Aggregate Average Weekly Hours, Total (000's)	25,491	28,208	10.7	27,062	28,728	6.2
Production (million dollars)	46,562	52,918	13.7	29,318	32,983	12.5
Net Sales (million dollars)	41,653	47,993	15.2	22,604 1/	25,131 1/	11.2
Net Income (million dollars)	991	1,599	61.4	716 1/	921 1/	28.6

Apparel and Related Products

	1982	1983	Percent Change	January - July 1983	January - July 1984	Percent Change
All Employees (000's)	1161.1	1164.1	0.3	1142.3	1208.8	5.8
Production Workers (000's)	981.2	989.3	0.8	965.0	1024.1	6.1
Production Workers Aggregate Average Weekly Hours, Total (000's)	35,029	37,099	5.9	35,705	38,813	8.7
Estimated Production (million dollar)	49,346	55,406	12.3	30,720	32,605	6.1

Source: Compiled by International Business and Economic Research Corporation (IBERC) from U.S. Government Statistics

1/ First two quarters

[From the U.S. Department of Commerce, Aug. 10, 1984]

COMMERCE TO INVESTIGATE TEXTILE IMPORTS FROM 13 COUNTRIES

The Commerce Department announced today that it will initiate countervailing duty investigations of textiles from 13 countries to determine if these imports are being unfairly sold in the United States.

The investigations follow petitions filed in July by the American Textile Manufacturers Institute, the Amalgamated Clothing and Textile Workers Union and the International Ladies' Garment Workers Union which alleged that the imports are being subsidized by foreign governments.

The Commerce Department will determine whether textiles and textile products are being subsidized by the foreign governments.

Beginning on July 19, the two unions and the trade association filed a series of petitions seeking import relief from allegedly subsidized foreign textile products. These products included yarns and threads, cordage, woven fabrics, special construction fabrics, textile furnishings, wearing apparel, headwear, gloves, luggage and handbags.

In an announcement, Commerce Secretary Malcolm Baldrige said the imports of textile products involved in these investigations represent a small portion of the U.S. market—about 3.7 percent spread over 13 countries.

Commerce statistics show the following percentages of apparent domestic consumption in the United States from the countries being investigated:

	Percent
Argentina	0.03
Colombia	.10
Indonesia	.32
Malaysia	.19
Mexico	.70
Panama	.01
Peru	.25
Philippines	.72
Portugal	.11
Singapore	.39
Sri Lanka	.25
Thailand	.46
Turkey	.03

The number of foreign exporting firms targeted by the petitions is large—as many as 409 in the case of Portugal. Many are family owned enterprises.

The investigations will encompass a variety of alleged subsidy programs, ranging from countertrade (or mandatory barter agreements), government equity infusions into textile companies, preferential loans, grants to tax benefits such as the provision of raw materials and semi-finished goods at preferential rates. Commerce dropped a number of allegations from the investigations, as the information supplied by the petitioners did not provide a sufficient basis on which to proceed.

None of the 13 nations—all developing countries in Asia, Europe and Central and South America—are signatories to the GATT Subsidies Code, which would entitle them to an injury test on dutiable merchandise by the International Trade Commission.

Senator MATHIAS. Thank you, Mr. Gluckson.

Mr. Hand?

STATEMENT OF J. M. COLTON HAND, MEMBER, BOARD OF DIRECTORS, CONSUMERS FOR WORLD TRADE, WASHINGTON, DC

Mr. HAND. Mr. Chairman, my name is Colton Hand. I am a member of the board of directors of Consumers for World Trade, which concerns itself with the interests of American consumers in international trade policy, both exports and imports.

One of our primary goals is to bring to the attention of the American public the high price they are paying for the protection of specific industries and products in the form of hidden taxes and the reduction of the availability of lower-priced goods in the marketplace.

U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden being borne by the consumer. Our concerns about textile and apparel trade policies started many years ago with the original multifiber arrangement. Our organization did not exist in its present form in 1973, but we came about a few years later, in time to look back and see what damage had been done since the MFA was instituted.

In 1979, we commissioned a study from David Hartman, a Harvard professor of economics, in which he quoted the Council on Wage and Price Stability as reporting in 1978 that protection due to the MFA had cost consumers $2.7 billion a year, because of tariffs which then averaged 29.3 percent, and in addition $369 million a year due to quotas.

A much more recent study, published in 1983 by Michael Munger of the Center for the Study of American Business at Washington University in St. Louis, estimates that the restrictions cost consumers about $18.4 billion a year in 1980 dollars, $3.16 billion for textiles and $11.795 billion for apparel due to tariffs, and in addition $3.416 billion for apparel and textiles due to quotas.

These figures are frightening enough, but it is safe to say that these figures, based on 1980 and 1982 data, have and will continue to increase with the rash of bilateral agreements that have taken place since then and with the recent adoption of more stringent controls on textiles and apparel trade.

For example, in mid-January 1983, when the United States set quotas on many categories from China, retailers predicted that the price of imported clothing would go up about 20 percent or more over a period of 12 months. This estimate was exceeded in less than 6 months. It is now reported that imported apparel has gone up 25 percent to 30 percent in 1984.

As I mentioned earlier, restraints affect consumers not only in price but also in choice and availability. The president of the American Retail Federation, William Kay Daines, explained it this way for a recent CWT Newsletter interview:

> The MFA has had a very interesting effect in a number of ways upon consumer goods. Years ago when the MFA first came into being, you did not have from the Far East competition in the highly tailored suits, blouses and other apparel that has now developed as a result of the MFA. Because of the quantitative restrictions, the manufacturers abroad kept building to a higher product, trading up, and now you have sharp competition to American apparel in the exact categories where they were highly competitive many years ago. That type of competition does eliminate lower-end goods; however, if the MFA were liberalized or ended, those lower-end goods would return very rapidly.

Kay Daines hit on a very important point in this statement: "The fact that the cheaper goods, the ones that attract many American consumers to buy the import in the first place, become scarce and are eventually eliminated." So that it is unavoidably the lower-income, the fixed-income individuals, the one who is shopping price, the one who can least afford it, who bears the heaviest burden. Textile and apparel import restrictions are thus the equivalent of regressive taxes, a system which America has long condemned.

I have been discussing the price and availability effects of trade restrictions, but there is one other factor I have so far ignored.

What of retaliation? China did, of course, in 1983 against U.S. exports of soybeans, cotton, and chemical fibers.

We do not believe any trade expert was surprised by this action. They were more surprised, perhaps, that other major supplying countries had not hitherto done so. Hong Kong, of course, being a free market, has a problem, and the Third World countries, which we claim to help on one hand and hit with export quotas on the other, are not in the position to do so.

But how long will this keep up? How long before the agricultural community, pitted against the textile sector, pressures trade policy formulators into counter-retaliatory actions? And how long before the consumer feels the effects of an escalated trade war?

Recently, our organization has been deeply troubled by the change in Customs regulations relating to the country of origin provisions for textile imports. Under current practices, an article could be treated as the product of a country if it was produced entirely in that country or it was "substantially transformed" from component parts produced in another country.

In other words, a garment partially manufactured in one country and completed in another was charged to the second country's quota. The size of these quotas is determined by the multifiber agreement—international rules which govern textile and apparel trade—and by bilateral negotiations between the United States and its textile trading partners.

The new provisions, on the other hand, will charge the garment to the quota of the country where the parts originated. If, for example, Hong Kong manufactured the parts of a sweater, but the sweater was sewn together and collar, cuffs, buttonholes and pockets added in China, the garment would be charged to Hong Kong's quota. In many cases, the original country may have been assigned a much smaller quota than the country responsible for the finishing operations.

The change in regulation was ostensibly intended to prevent circumvention of quotas by exporting countries. They were to take effect on September 7, but as a result of a clamor of protest from domestic consumers, retailers, importers, and the agricultural sector, as well as the foreign nations involved, the administration announced that, in order not to disrupt Christmas sales, goods ordered on or before August 3 and shipped by October 31 could enter the United States.

This extension is only slight comfort to those who will be adversely affected by the new policy. These include: consumers who will have less merchandise available to them at an increased price, an estimated 20-percent hike; retailers who foresee serious disruption of trade for spring 1985 and in the future, as well as higher costs; importers, who particularly resent the lack of due process, as no opportunity was given to review or comment on the changes before their going into effect; farm groups, who anticipate retaliation by the textile exporting countries, especially China; and our trading partners, who contend that the changes violate the multifiber agreement and the General Agreement on Tariffs and Trade. The GATT itself has caused the new restrictions discriminatory and urged the United States to cancel them.

CWT will stress the need for a radical change in U.S. textiles and apparel trade policy for as long as necessary and will continue to call for the liberalizing of bilateral agreements and the elimination of the MFA. American consumers must no longer be forced to subsidize an open-ended program of protection for the domestic manufacturers, a program which by its very nature has failed to provide the challenge necessary for the industry to adjust to and confront foreign competition and market-oriented world trade.

Thank you very much.

Senator MATHIAS. Thank you, Mr. Hand.

STATEMENT OF ANGELO R. ARENA, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HUTZLER BROS. CO., BALTIMORE, MD, ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION, WASHINGTON, DC

Mr. ARENA. Good morning, Mr. Chairman. It is a pleasure for me to be here this morning.

Senator MATHIAS. It is a pleasure for me to have a great Maryland institution represented here on the committee today.

Mr. ARENA. Thank you.

My name is Angelo Arena. I am chairman and chief executive officer of Hutzler Bros. in Baltimore, MD, and I am here today on behalf of the Retail Industry Trade Action Coalition [RITAC] to discuss U.S. textile and apparel trade policy.

My personal experience in retailing spans some 30 years. I have been the chief executive of some larger as well as smaller businesses, including Marshall Field & Co. and Neiman-Marcus in Dallas.

Today I am representing as an entrepreneur a smaller company that does much of its own buying directly. The concerns I will express here today are very real to me. They have a direct firsthand impact on our stores. We have 10 stores in the greater Baltimore area. We employ about 2,000 people.

RITAC is a coalition of major independent retailers and retail trade associations, organized to counter trade policies which we believe threaten the health of our industry and of the U.S. economy generally, through higher prices at home and reduced opportunities for U.S. exports abroad. Of particular importance to retailers are restrictions on imports of textiles and apparel.

Duties on textiles and apparel currently are the highest of any major product sector. Fully 85 percent of textiles and apparel imports are subject to bilateral agreements which control, or potentially control, import volumes. As a retailer, in my stores we do approximately 55 percent of our business in categories under these controls. In addition, most decisions on textile and apparel trade policy are made outside the normal trade policy decision framework and without the same level of interagency and public scrutiny.

High textiles and import quotas on textiles and apparel impose substantial costs on U.S. interests abroad and on the U.S. economy. They increase consumer costs, as much as $23.4 billion in 1984, according to one study.

Speaking personally about this issue, quotas and calls have limited our ability in the past to import merchandise which we felt had great value and price appeal to our customers. We were forced to either replace that merchandise domestically or give up those categories because we didn't feel that the domestic price would be competitive in the marketplace.

We believe, further, that this costs jobs in unprotected industries as a result of foreign retaliation against U.S. exports.

Further, they relieve the domestic textile and apparel industries from pressures, it relieves those industries from pressures to modernize and to reassert their competitiveness in world markets.

And undermine U.S. international economic and political interests, particularly in developing countries which depend on textile and develop exports as a source for needed foreign exchange. And over one-third of our exports, as you know, go to developing countries.

As World Bank President A.W. Clausen said on Monday at the opening session of the joint annual World Bank and International Monetary Fund meeting, recovery in the Third World will be a "pipe dream" if the richer nations continue their protectionist measures instead of liberalizing trade.

This morning, the New York Times quoted President Reagan addressing that same group yesterday on the issue of trade liberalization, indicating the need for it and for strengthening the global trading system to ensure its benefits will be spread to people everywhere.

Over the coming months, the retail industry urges the Congress and the executive branch to undertake a thorough review of U.S. textile and apparel trade policy and to consider changes in five broad categories:

First, the multifiber arrangement will expire in 1986. We believe that any extension of the MFA should reassert its original purpose. That purpose was to serve as a temporary transition to assist importing countries to adjust to global competition in textiles and apparel without undue market disruption.

Second, the entire textile trade policymaking process must be made more open. Sound policymaking must reflect the interests not only of the textile industry, but also of retailers, importers, consumers, workers, and other affected groups. Retailers and other interested parties must receive timely notice and opportunity to participate when decisions on import restraints are taken.

Surely, recent decisions as they relate to country of origin could conceivably disrupt sources of flow to retailers in this country. We appreciate that that has been extended, but we continue to be concerned about what happens following the October 30 date.

Third, RITAC believes that textile policy should be returned to the mainstream of U.S. trade policy formulation. For over 20 years, textile trade policy has been formulated by people outside of the normal trade policymaking process. Textile decisions often involve billions of dollars worth of trade and should be considered with other trade decisions of vital national interest through established interagency policy review channels.

Indeed, the recent highly controversial textile country of origin regulations issued by the Customs Service offer an excellent opportunity of how textile and apparel import decisions are taken without sufficient interagency and public review.

Fourth, we believe that any future import relief to the textile and apparel industries should be expressly linked to an industry-labor commitment to improved productivity and to effective, meaningful worker adjustment and retraining assistance. Government can facilitate this process by encouraging capital investment in more efficient plants and equipment.

Employees who lose jobs as a result of industry restructuring should be eligible for retraining and job counseling which will permit them to move into other sectors of the economy.

Fifth and finally, special emphasis must be placed on bringing textile import policies and programs into conformity with the general trade and economic policies of the United States and with our international commitments. Restrictive actions taken by the United States only undermine our credibility as a self-proclaimed leader in the fight against global import protection.

Restrictive textile trade policies also make it more difficult for the United States to achieve important goals in foreign trade policy: a dismantling of foreign trade barriers to U.S. exports, strengthening international rules and institutions and achieving world economic health.

Before concluding, I would like to reemphasize our concern that fundamental changes are needed in the U.S. textile and apparel trade policy to bring into balance the interests of all sectors of the American economy. We look forward to working with you and the subcommittee in future hearings to explore how these changes may best be brought about.

Thank you.

[Prepared statement of the Retail Industry Trade Action Coalition and attachments follow:]

Statement
by the
Retail Industry Trade Action Coalition (RITAC)
on
Textile and Apparel Trade Policy

The Retail Industry Trade Action Coalition (RITAC) is pleased to present testimony on U.S. textile and apparel trade policy and its effects on U.S. foreign policy generally.

RITAC believes that U.S. textile and apparel trade policy is seriously flawed. This statement will address the need for general reform of the textile trade policy process, including the Multifiber Arrangement (MFA), procedures for imposing restraints on non-quota products ("calls"), and the recently promulgated "country of origin" interim regulations for textile and apparel products. It will highlight the critical effects of U.S. textile policy decisions on consumer costs and choice, on jobs for American workers, and most important, on U.S. international economic and political interests. The statement will also illustrate the excessive influence of the U.S. textile and apparel manufacturing industry, which is at the root of these policy weaknesses. Finally, it will suggest options for textile trade policy reform designed to make such policies more responsive to the needs of American industry, the American consumer and American foreign policy concerns including:

- Issues involving renewal of the Multifiber Arrangement which expires in 1986, especially reasserting its original purpose as a temporary transition towards a more open international trading system;
- Making the textile trade policy process more open and accessible, while gathering a broader range of more accurate factual information for

decision-making, and lessening the disproportionate influence of domestic textile and apparel interests;

- Returning textile policy-making to the mainstream of the U.S. trade policy structure;
- Linking import relief to improved industry productivity and effective worker adjustment; and
- Coordinating the formulation of textile policy with overall U.S. foreign policy goals.

THE RETAIL INDUSTRY

RITAC is a coalition of major independent retailers and retail trade associations organized in June 1984 to oppose restrictive trade policies which threaten the health of our industry and of the U.S. economy generally, through higher prices at home and reduced opportunities for U.S. exports abroad. In 1983, the retail industry posted sales of over $1 trillion (approximately one-third of overall U.S. GNP) with a workforce of 16.7 million representing over 2 million separate establishments.

The success of the retail industry, and the standard of living of its customers, depends on its ability to provide the widest possible selection of quality merchandise at reasonable prices. Its customers, especially low-and middle-income customers, have insisted on fashion-right, high-quality, competitively-priced products from all over the world. Domestic import restrictions, however, have made it increasingly difficult for retailers to meet these basic consumer needs.

THE COSTS OF RESTRICTIVE TRADE POLICIES IN TEXTILES AND APPAREL

The textile and apparel industries are the most protected sector of American industry. Eighty-five percent of textile and apparel imports come from 23 countries with which the U.S. has bilateral agreements aimed at controlling such imports. The duties on textiles and apparel are the highest in the U.S. Tariff Schedules for any major product sector, with a weighted average duty on apparel of 25.9 percent compared to 5.2 percent for all dutiable products. Textile and apparel duties have been substantially exempted from tariff reductions in successive multilateral trade negotiations under the GATT. These products have also been exempted from the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI).

Moreover, the textile policy-making process itself furthers this system of protection. Because it is outside of the mainstream of U.S. trade policy, textile policy-making is not subject to automatic review by senior government officials in such sectors as agriculture which may be significantly affected by the results of such decisions, or in general by officials with broader responsibility over U.S. trade policy. Nor is adequate notice and opportunity for comment provided to retailers, importers, consumers, and other interested groups.

Barriers to textile and apparel imports impose substantial costs on American society. These include negative effects on U.S. international economic and political interests, increased consumer prices, lost jobs in unprotected industries, and reduced competitiveness in the textile and apparel industries themselves.

Effects on U.S. International Economic and Political Interests. U.S. textile and apparel trade policies have important international, economic and political implications. For developing countries, open markets in the industrial world are critical to economic growth and stability. Just two days ago, World Bank President A.W. Clausen, in his address to the opening session of the joint World Bank/IMF meeting here in Washington, said that recovery in the Third World will be a "pipe dream" if the richer nations continue their protectionist measures instead of liberalizing trade. Clausen emphasized that "it is now of crucial importance that governments stop simply making declarations of interest, and start taking concrete steps to liberalize trade."

The effect of import restrictions on LDCs is crucial for several reasons. Reduced earnings from exports by the developing countries (who depend on textiles and apparel for 30 percent of their export earnings in manufactured products) will mean a reduced ability to import from the United States. The developing countries, which now account for over one-third of total U.S. exports and have been the fastest growing markets for U.S. products, have been severely affected by the recent world recession. Reducing textile and apparel imports from those nations exacerbates their troubled economic condition. The current massive debt obligations of the LDCs threaten not only their own progress and the export fortunes of U.S. businesses but also the foundations of U.S. banks and the international monetary and financial system. Allowing poor countries to earn foreign exchange through trade is the best way to deal with the problem of LDC debts. This has been forcefully stated by the President and every Cabinet member responsible for economic and foreign policy.

U.S. textile trade policy also affects our relations with more developed countries. Good trade and economic relations are essential ingredients in our overall relations. We, of course, want to avoid the effects of foreign trade retaliation because of quotas, or perceived violations of the MFA and bilateral textile agreement. Moreover, successful long-term development of the global economy depends on an open trading system. Distortions resulting from interference with flow of trade, services or investment reduce global economic efficiency, and everyone suffers. As the leading economic power in the world, the U.S. has the most to gain from the absence of restrictions and the most to lose from protectionism. This is why the U.S. has taken the leadership role in moving toward freer trade since 1934.

Lost Jobs In Unprotected Industries. Existing tariff and quota barriers on textiles and apparel are double-edged. While the domestic textile and apparel manufacturers lost about 400,000 jobs from 1978 to 1983, the retail industry created almost one million. Too often, import restrictions "save" jobs in one sector of the economy only at the expense of jobs in other sectors. While restrictions may guarantee certain prices or profits or market share to a favored industry, they penalize consumers and other unprotected industries. One of every eight workers manufactures for export and one of every three agricultural acres is planted for export. Exporters of agricultural commodities, as well as other products and services, are vulnerable to foreign retaliation in response to U.S. trade decisions. Lost jobs and business opportunities in these sectors must be recognized as a cost of U.S. textile and apparel trade policies.

The Hidden Cost to Consumers. Restrictions on textile and apparel imports operate as a "hidden tax" on consumers, raising prices and reducing the available quantity of imported goods. For example, a recent update of a study completed in 1980 by economists Michael C. Munger and Kathleen A. Rehbein, estimated the cost to U.S consumers of import protection for textiles and apparel to be $23.4 billion in 1984. That is more than $1,000 for a family of four. Similarly, a recent study by William R. Cline estimated that proposals to roll back footwear imports by 20 percent would increase prices to consumers by at least 13 percent and add $2 billion annually to what Americans pay for shoes.

Effects on the Textile and Apparel Industries. Import levels cannot be directly equated with the health of the domestic industry. Labor Department statistics show that domestic textile and apparel employment is increasing despite rising import levels. Moreover, recent articles in the New York Times (7/30/84), the Wall Street Journal (8/6/84) and Fortune (7/9/84) report strong earnings by the apparel industry since 1983, and steady growth in net income for textile companies. Apparently, consumers are buying both more imported goods and more U.S. goods.

How much of this industry prosperity is the result of existing U.S. tariff and quota policies, and how much is attributable to independent market forces (i.e. the end of a recession), is not certain. While these statistics argue persuasively against industry pleas for further import protection, they mask the underlying negative effect of U.S. textile and apparel trade policy on the protected industries themselves. Experience has shown that import restrictions rarely solve the problems of a domestic industry in the way that they were originally intended. Such restrictions can become a shelter from world competition and an excuse to avoid dealing with the problems of productivity, quality, innovation, and price. Rather than growing stronger, the industry becomes dependent on government protection and falls further behind its worldwide competition.

Similarly, workers "protected" by import restrictions rarely gain long or even medium-term benefits. Apparel and textile wages are typically well below the average for American manufacturing workers. Import tariffs and quotas help to encourage these workers to remain in inefficient, low-wage industries, rather than to shift to higher paying jobs in growth sectors of the economy. A 1981 study for the U.S. Labor Department[1/] found that textile and apparel workers who were permanently laid off received higher incomes in the five years following their layoff than they would have by remaining in their old jobs, even after accounting for a period of unemployment.

SPECIFIC ISSUES OF IMPORTANCE TO RETAILERS

The Multifiber Arrangement (MFA). Trade in textiles and apparel is more restricted than trade in any other goods. Bilateral agreements, negotiated under the rules of the Multifiber Arrangement, place quantitative restrictions on trade and permit discrimination among trading partners. The MFA provides a framework for regulation whereby individual countries negotiate bilateral agreements on how imports are to be restricted. The resulting quota levels are derived according to category. In cases where a category is not covered by quotas, the bilateral

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[1/] Arlene Holen, Christopher Jehn, and Robert P. Trost, "Earnings Losses of Workers Displaced by Plant Closings," Public Research Institute, December, 1981.

agreements provide mechanisms for establishing such levels during the term of the agreement.

The initial purpose of the MFA was to restrict imports from low-wage countries temporarily so they would not disrupt industries in the developed high-wage countries. The Arrangement had its beginnings in the late 1950s, when Japan "voluntarily" agreed to limit its exports of cotton products to the U.S. In 1973, the MFA was signed as an official multilateral "exception" to GATT trading rules. The agreement was extended in late 1981, to be in effect until 1986.

Arbitrary categories and requirements under the MFA provide a basis for complex and highly restrictive bilateral agreements affecting textile and apparel trade. Exceptions to the basic MFA framework, incorporated in the Protocols of Extension, add further to the complexity of these requirements. RITAC believes that the debate on renewal of the MFA should address these issues, while seeking to reassert the Arrangement's original purpose to serve as a transition towards a more open international trading system for textiles and apparel.

U.S. Textile Import Program: "Calls". A key feature of the textile import program of the U.S. government, and a significant illustration of that program's inherent weaknesses, is the "call" system. A "call" is a governmental action to restrict imports of a category of textiles or apparel not already under quota restraints. The Committee for the Implementation of Textile

Agreements (CITA)[2] makes a call by issuing a market statement intended to spell out the factors which, in its judgment, have created a situation where domestic producers are being injured. "Market disruption" is to be determined on the basis of a finding of serious damage to domestic producers, or of an actual threat of such damage. In making this determination, paragraph 1 of Annex A of the MFA requires the United States and other importing countries to consider "turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments." Moreover, paragraph 1 specifically provides that "(n)o one or several of these factors can necessarily give decisive guidance."

"Market disruption" is a rigorous standard which places a heavy burden of proof on a country seeking to establish restrictions on textile and apparel trade. Frequently, however, CITA decisions are based solely on increased import levels, without serious investigation of actual disruption of U.S. markets.

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[2] -- The Committee for the Implementation of Textile Agreements (CITA) was established by Presidential Executive Order 11651 on March 3, 1972 to supervise the implementation of textile bilateral agreements and, under the policy guidance of the Textile Trade Policy Group, to propose and implement Article 3 import restraints. The Committee is comprised of members from Commerce, State, Labor and Treasury Departments, and the Chief Textile Negotiator of the U.S. Trade Representative's Office. The Commerce Department has the main responsibility for this Committee. CITA is chaired by the Commerce Department's Deputy Assistant Secretary of Textiles and Apparel. The Commerce Department provides all staff work for the Committee, monitors all agreements and provides the statistical data upon which Committee actions are taken.

On December 16, 1983, the President authorized a new "trigger" mechanism for initiating calls. Under the new procedure, the government will presume that "market disruption" has occurred when the following two-step test has been met: 1) when global imports of a specific category of goods have grown by 30% or when the ratio of imports to domestic production is greater than 20%; and then 2) when imports from a specific supplier country equal 1% of total U.S. production in that category. We believe that this procedure is inconsistent with MFA standards.

Calls pose special problems for the retail industry. There is frequently no advance notice or effective input into the decision-making process, and rarely an opportunity to review call decisions. Moreover, such decisions frequently lack a reasonably developed case against specific apparel imports as required under the standards and criteria of Annex A of the MFA and by Paragraph 8 of the Protocol of Extension. What information is made available with formal "market statements" is generally inadequate and is normally released after the call has been made.

U.S. Textile Import Program: Country of Origin Rules for Textiles and Apparel. On September 7, the Customs Service proposed interim regulations governing the importation of textiles and apparel products. Under the guise of combating import fraud, these new regulations make substantial changes in long-standing Customs policy which will affect hundreds of millions of dollars of textile and apparel trade. Moreover, the regulations were issued on an interim basis without adequate notice or opportunity for public comment.

RITAC supports efforts to identify and curtail fraud in textile trade. Where actual fraud is occurring, it should be stopped. However, RITAC believes that these regulations interrupt accepted, legitimate trade patterns that have nothing to do with fraud. On August 29, RITAC filed a lawsuit in the Court of International Trade to enjoin enforcement of these regulations, which already are disrupting the textile trade.

RITAC's legal and policy objections to the regulations are fully described in its complaint filed with the Court. But we wish to highlight our foreign policy concerns here: This change has and will continue to provoke serious protest from trading partners. European countries, Japan, Canada, China, and Hong Kong all have protested vehemently. Hong Kong and China are hit especially hard. For example, in the Hong Kong knitting industry, most garment sleeves and front and back panels are supplied by factories in China's Guongdong province. Similarly, Hong Kong traders import grey cloth from China and dye, bleach and finish it in the colony before exporting it to the United States. Under the new regulations, many of these products would be determined to be of Chinese origin, and charged to limited PRC quotas rather than the much larger Hong Kong quotas. Overall, Hong Kong estimates that the new rules could eliminate roughly $300 million a year of its exports to the U.S., mainly in knitwear and finished fabrics -- in violation both of the GATT and the Multifiber Arrangement. A delegation from Hong Kong came to D.C. in late August to protest the new rules.

The U.S. has received a series of strongly-worded messages from its trading partners in the Far East, including an August, 1984 letter to Ambassador Brock from the Chinese Ambassador to the U.S., which estimated that hundreds of factories and at least 60,000 jobs will be lost in Southern China by the regulations. The letter warned that "no one can be sure that a reverse trend in our two-way trade wouldn't develop in the case of the textile trade agreements." The Europeans also reiterated their serious concern about the country-of-origin regulations in consultations with the U.S. last week.

AGENDA FOR POLICY CHANGE

Based on the problems described above, RITAC believes that significant changes need to be made in U.S. textile and apparel trade policy in five broad areas.

First, the substance of trade policy must change. The international framework for textile controls, the Multifiber

Arrangement,[3/] is up for renewal in 1986. Any extension of the MFA should reassert its original purpose: to serve as a temporary transition mechanism, a short-term measure to allow industries in importing countries to adjust to global competition without undue market disruption.

Although RITAC is still shaping its formal position on MFA renewal issues, we believe that serious consideration should be given to restructuring some elements of its current operation. For example, products not produced domestically by the United States might be taken out of the arrangement. There is no direct domestic benefit to workers or consumers by such import restrictions, and they appear inconsistent with the spirit of the MFA. Similarly, exceptions to the basic MFA framework which have been written into recent protocols of extension should be carefully reviewed. Such exceptions have contributed significantly to current world-wide textile policy difficulties.

Second, the entire textile trade policy-making process must be made more open. Sound policy-making must reflect the interests not only of the textile industry, but also of retailers, importers, consumers, workers, and other affected groups. Too often, decisions are made by fiat, in the dark, without adequate

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[3/] -- Under the MFA, the United States has negotiated 28 bilateral restraint agreements with 27 countries. The U.S. also has bilateral agreements with nine MFA non-signatories. These agreements covered 58 percent of U.S. textile and apparel imports in 1983.

findings or justification. Retailers and other interested parties do not receive the timely notice to which they are entitled before import restraint actions are taken. Such notice is not only essential to permit comment on proposed restraints but also to allow orderly adjustment of commercial arrangements. A more open decision-making process will help to ensure that textile and apparel policy decisions reflect the interests of all segments of the economy.

Third, the domestic textile policy-making process is in urgent need of revision. Textile policy-making often takes place in a framework that is not subject to the same checks and balances as other trade policy. For over 20 years, textile trade policy has been made by people and via processes outside of the normal trade policy-making process. Indeed, the recently-published textile country-of-origin regulations offer an excellent example of how textile and apparel import decisions, taken by CITA, are given insufficient interagency review. This decision was made without a clear understanding of its implications for U.S. exports, particularly agricultural exports, and U.S. trade policy generally.

RITAC believes that textile policy should be returned to the mainstream of U.S. trade policy formulation. Textile decisions often involve billions of dollars worth of trade and should be considered alongside other trade decisions of vital national interest through established interagency policy review channels. All interested agencies should be given an adequate opportunity to participate in the decision-making process.

Textile policy decisions should be made according to set standards, with public participation, and subject to review by the Trade Policy Review Group (TPRG). If an individual decision is of particular consequence, review by the Trade Policy Committee (TPC) or the Cabinet Council on Commerce and Trade (CCCT) may also be appropriate. CITA should not be the final arbiter of U.S. textile policy decisions.4/

Fourth, any future import relief for the textile and apparel industries should be expressly linked to an industry/labor commitment to improved productivity and, where appropriate, to effective worker adjustment and retraining assistance. Temporary relief should not become a permanent crutch for manufacturers or workers who are unwilling to take the necessary steps to remain

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4/ A "Textile Trade Policy Group" (TTPG) was set up by Presidential Memorandum of June 5, 1975. In theory, it is chaired by USTR and composed of Under Secretaries of Agriculture, Commerce, Labor, State and Treasury. The TTPG was intended to (1) advise on general matters concerning international textile trade policy, (2) establish procedures and policy guidance under which the Committee for the Implementation of Textile Agreements takes unilateral action under the MFA, (3) develop policy proposals with respect to the negotiation of bilateral and multilateral textile trade agreements, and (4) authorize and provide for such negotiations. The TTPG, however, does not provide an adequate check on textile policy-making because 1) there is no automatic review of CITA decisions; 2) all relevant agencies are not included within the TTPG; and 3) the group is not part of the basic Trade Policy Committee framework within which other trade issues are decided. Moreover, its existence has been virtually ignored by recent administrations.

competitive in world markets.

Government can assist this process by encouraging capital investment in more efficient plants and equipment. Labor-management cooperation in seeking to improve productivity through more efficient procedures and better working conditions should also be encouraged. Most important, employees who lose jobs as a result of industry restructuring should be eligible for effective retraining and job counseling services which will permit them to move into other sectors of the economy.

Fifth, and finally, textile and apparel import policies and programs must be brought into conformity with the general trade and economic policies of the United States. Our trade policy towards China again is an excellent illustration of problems resulting from the current lack of policy coordination: at the same time as we are reaching out to improve overall relations with the PRC, we have pursued a textile trade policy which is directly at odds with their interests. Our policies work at cross-purposes.

More generally, the President has enunciated a clear and unequivocal defense of free trade policies. For example, in March 1983, he said: "The United States will carry the banner for free trade and a responsible financial system." This declaration has received the strong support of Secretaries Shultz, Baldrige and Regan, United States Trade Representative Brock, and the members of the Council of Economic Advisers. Yet, we believe that current textile and apparel trade policies and enforcement practices are in conflict with these policy statements. The textile and apparel industries seized upon a single statement, made during the 1980 campaign by then Presidential candidate Reagan, to seek to "relate" growth in textile and apparel imports to growth in the domestic consumption of textiles and apparel. Whatever this statement means, it is clear that the President cannot allow it to be interpreted in ways which violate international commitments and agreements of the United States and domestic law. Moreover, to "relate" the rate of import growth in textiles and apparel to the rate of growth in the domestic market, as urged by domestic textile and apparel manufacturers, would freeze the status quo, provide for no adjustment to demand, and would clearly be contrary to U.S. overall economic and trade policy interests.

Similarly, textile and apparel import policies and programs must be brought into conformity with international commitments of the United States. The United States has taken a leadership role in seeking to halt and reverse the trend towards global import protection. For example, at the insistence of the United States, the GATT Ministerial meeting in Geneva in November of 1982, issued a pledge against protectionism. This was strengthened at the 1983 Economic Summit in the Williamsburg Declaration:

> "We commit ourselves to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers. We intend to consult within appropriate existing fora on

> ways to implement and monitor this commitment. . . We should work to achieve further trade liberalization negotiations in the GATT, with particular emphasis on expanding trade with and among developing countries. We have agreed to continue consultations on proposals for a new negotiating round in the GATT."

The Williamsburg Declaration need not be an empty exercise. It was advocated by President Reagan because of his recognition of the real dangers of import protection to world economic recovery. Restrictive actions in the textile and apparel sectors not only undermine our credibility but make it more difficult for the United States to achieve important goals in foreign trade policy: a dismantling of foreign trade barriers to U.S. exports, strengthening international rules and institutions and achieving world economic health.

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RITAC appreciates the opportunity to present its views to the Committee. We look forward to working with the Committee in future hearings on this very important subject.

FOR IMMEDIATE RELEASE

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RETAIL INDUSTRY TRADE ACTION COALITION

RETAIL COALITION TO FIGHT FOR FREER TRADE

Washington, D.C. -- June 27 -- A coalition of large and small retail merchants from across the country announced today that it will press for freer international trade to ensure the best possible choice and value for consumers.

The Retail Industry Trade Action Coalition (RITAC) now consists of the chief executive officers from 20 retail firms and eight national retail associations. Its Executive Committee Chairman is William A. Andres, Chairman of the Board of the Minneapolis-based Dayton Hudson Corporation. Former J.C. Penney Chairman Donald V. Seibert of New York is the Vice Chairman.

"Retailers are alarmed at the mounting pressure to restrict imports", said Andres in his opening remarks, "because consumers end up paying billions of dollars more than is necessary for clothing, shoes and other items they want from abroad."

RITAC's chief concerns, as expressed by Andres and other press conference participants, are maintaining consumer choice and value in the merchandise retailers stock and improving the competitiveness of American industry to end reliance on import restrictions. RITAC hopes to educate Congress and other key publics that freer trade does not cost American jobs.

"We are concerned about jobs and about the adjustment American workers and industry must make to new developments and increased competition", Andres said, "but quotas on imports or other restrictions force us to trade jobs in certain industries for jobs that could have been created elsewhere. And new restrictions on imports invariably rebound to cut jobs here as other countries retaliate.

Andres and a series of other speakers outlined the problems retailers face in attempting to maintain the wide selection of goods and the low prices that consumers demand in the face of the highly restricted international trade in textiles and apparel. They cited horror stories of merchandise embargoes by the United States government that cut off shipments and force higher prices for their customers.

Andres termed the textile and apparel import quota program "a triumph of politics over economic common sense," and estimated the cost to consumers at over $4 billion in 1984.

"We are going to take a direct political approach to boost freer trade," the Coalition Chairman pledged. "We've written the President, met with the Secretary of Commerce, and we're expanding our contacts at the White House and on Capitol Hill."

The Coalition has been active since January 1984 mounting a series of legal and political challenges to protectionist measures. RITAC intends to challenge the validity of administration "calls" that have halted the shipment of apparel from abroad, and has joined in an appeal of a ruling of the Court of International Trade.

"In the longer term," Andres revealed, "the Coalition will work to raise consumer voices in opposition to the billions of dollars in hidden taxes they pay due to import restrictions." Broadening the Coalition to include more retail companies is another prime objective.

"Retailers are not ready to stop competing," Andres continued. "Every day in every retail store in America we take a consumer poll of likes and dislikes. We want to continue giving them the fashion-right, high quality, competitively priced products they want from all over the world."

The U.S. retail industry employs 16.7 million people in about two million establishments. Retail sales of over $1 trillion in 1983 accounted for almost one-third of the GNP.

# # #

RITAC
RETAIL INDUSTRY TRADE ACTION COALITION

Retail Companies

Associated Dry Goods Corporation
Associated Merchandising Corporation
Balliet's, Inc.
BATUS Retail Group
Carter Hawley Hale Stores, Inc.
Dayton Hudson Corporation
Edison Brothers Stores, Inc.
Federated Department Stores, Inc.
J. C. Penney Company, Inc.
K mart Corporation, Inc.
Proffitt's Inc.
R. H. Macy & Co., Inc.
Sears, Roebuck and Co.
Selber Bros., Inc.
Spiegal, Inc.
Tandy Corporation
The May Department Stores Company, Inc.
Walgreens
Zale Corporation
Zayre Corp.

Associations

American Retail Federation
Association of General Merchandise Chains, Inc.
Direct Selling Association
National Association of Chain Drug Stores
National Mass Retailing Institute
National Retail Merchants Association
National Shoe Retailers Association
Volume Footwear Retailers of America, Inc.

UNITED STATES COURT OF INTERNATIONAL TRADE

RETAIL INDUSTRY TRADE ACTION COALITION;
ASSOCIATED DRY GOODS CORPORATION; ASSOCIATED
MERCHANDISING CORPORATION; BALLIET'S,
INC.; BATUS RETAIL GROUP; DAYTON HUDSON
CORPORATION; EDISON BROTHERS STORES, INC.;
FEDERATED DEPARTMENT STORES, INC.; K MART
CORPORATION, INC.; R.H. MACY & CO., INC.;
THE MAY DEPARTMENT STORES COMPANY, INC.;
J.C. PENNEY COMPANY, INC.; PROFFITT'S, INC.;
SELBER BROS., INC.; SPIEGEL, INC.; ZALE
CORPORATION; ZAYRE CORPORATION, and AMERICAN
ASSOCIATION OF EXPORTERS AND IMPORTERS
- TEXTILE AND APPAREL GROUP; ASSOCIATION OF
GENERAL MERCHANDISE CHAINS, INC.; NATIONAL
RETAIL MERCHANTS ASSOCIATION,

Court No.
84-8-01204

Plaintiffs,

v.

UNITED STATES CUSTOMS SERVICE; UNITED
STATES DEPARTMENT OF THE TREASURY; COMMITTEE FOR THE IMPLEMENTATION OF TEXTILE
AGREEMENTS; UNITED STATES DEPARTMENT OF
COMMERCE; UNITED STATES DEPARTMENT OF LABOR;
UNITED STATES DEPARTMENT OF STATE; OFFICE
OF THE UNITED STATES TRADE REPRESENTATIVE;
THE UNITED STATES; and

WILLIAM VON RAAB, Commissioner of Customs;
JOHN M. WALKER, JR., Assistant Secretary
of the Treasury; DONALD T. REGAN, Secretary
of the Treasury; WALTER C. LENAHAN, Chairman,
Committee for the Implementation of Textile
Agreements; MALCOLM T. BALDRIGE, Secretary
of Commerce; RAYMOND J. DONOVAN, Secretary
of Labor; GEORGE P. SHULTZ, Secretary of
State; and WILLIAM E. BROCK, United States
Trade Representative,

Defendants.

COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF

Plaintiffs, by their attorneys, WEIL, GOTSHAL & MANGES, for their complaint, allege:

NATURE OF THE ACTION

1. This is a civil action for declaratory and injunctive relief. It is brought by: the Retail Industry Trade Action Coalition ("RITAC") on behalf of its members, the members of RITAC noted below in their individual capacity (hereinafter, the "Retail Firms"),[1] and the trade association members of RITAC noted below, on behalf of their respective members.[2] The Retail Firms purchase, and import into the United States, textiles and textile products which, on August 3, 1984 become subject to new regulations issued by the United States Customs Service (the "Customs Service") under the direction of the Committee for the Implementation of Textile Agreements ("CITA") (49 Fed. Reg. 31,248) (the "regulations").

The regulations were promulgated without prior notice of proposed rulemaking and without affording any opportunity for public comment. Moreover, the regulations have substantially changed the standards and procedures for determining the applicability of quantitative restrictions and the proper source of visas or export licenses utilized to effectuate such restrictions, as well as country of origin marking requirements for imported textiles and textile products. The regulations have also imposed new documentation, inspection and enforcement provisions to effectuate the new standards.

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[1] Associated Dry Goods Corporation; Associated Merchandising Corporation; Balliet's, Inc.; BATUS Retail Group; Dayton Hudson Corporation; Edison Brothers Stores, Inc.; Federated Department Stores, Inc.; K mart Corporation, Inc.; R.H. Macy & Co., Inc.; The May Department Stores Company, Inc.; J.C. Penney Company, Inc.; Proffitt's, Inc.; Selber Bros. Inc.; Spiegel, Inc.; Zale Corporation: and Zayre Corporation.

[2] American Association of Exporters and Importers - Textile and Apparel Groups ("TAG"); Association of General Merchandise Chains, Inc. ("AGMC"); and National Retail Merchants Association ("NRMA").

Plaintiffs maintain that issuance of the regulations by the Customs Service violated required administrative procedures and was in excess of constitutional and statutory authority. Moreover, the regulations themselves are arbitrary, capricious, an abuse of discretion, and otherwise contrary to law. On these grounds, the Court should declare the regulations unlawful and set them aside and enjoin Defendants from enforcing them.

JURISDICTION

2. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1581(i)(3)-(4) in that it is commenced against the United States, its agencies, and its officers, and arises out of Section 204 of the Agriculture Act of 1956, as amended (7 U.S.C. § 1854), a law of the United States providing for embargoes or other quantitative restrictions on the importation of merchandise for reasons

other than the protection of the public health or safety, and the administration and enforcement of such embargoes or other quantitative restrictions.

3. Plaintiffs seek declaratory and injunctive relief, which this Court is empowered to grant under 28 U.S.C. §§ 1585, 1651, and 2643(c)(1). There exists between Plaintiffs and Defendants an actual and justiciable controversy as to which Plaintiffs have no adequate remedy at law and require a declaration of their rights by this Court.

4. Plaintiffs have standing to bring this civil action under 28 U.S.C. § 2631(i), in that Plaintiffs are persons adversely affected and aggrieved by agency action within the meaning of 5 U.S.C. § 702, in the manner described below.

THE PARTIES

5. Plaintiff Retail Industry Trade Action Coalition ("RITAC") is an unincorporated association with its principal office in the District of Columbia. RITAC is composed of various retail trade associations as well as firms within the retail industry. The members of those associations and these retail firms import and sell, among other articles, textiles and textile products. RITAC represents its members' interests in public policy matters involving international trade.

6. Plaintiff Associated Dry Goods Corporation is a corporation organized and existing under the laws of the State of Virginia. Associated Dry Goods Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

7. Plaintiff Associated Merchandising Corporation is a corporation organized and existing under the laws of the State of New York. Associated Merchandising Corporation serves as a buying office for firms within the retail industry and, in this capacity, acts as importer of record for certain merchandise, including textiles and textile products.

8. Plaintiff Balliet's, Inc., is a corporation organized and existing under the laws of the State of Oklahoma. Balliet's, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

9. Plaintiff BATUS Retail Group is a corporation organized and existing under the laws of the State of Delaware. BATUS Retail Group is principally engaged in the business of selling merchandise at retail, including textiles

and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

10. Plaintiff Dayton Hudson Corporation is a corporation organized and existing under the laws of the State of Minnesota. Dayton Hudson Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

11. Plaintiff Edison Brothers Stores, Inc. is a corporation organized and existing under the laws of the State of Delaware. Edison Brothers Stores, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

12. Plaintiff Federated Department Stores, Inc. is a corporation organized and existing under the laws of the State of Delaware. Federated Department Stores, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

13. Plaintiff K mart Corporation, Inc. is a corporation organized and existing under the laws of the State of Michigan. K mart Corporation, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

14. Plaintiff R. H. Macy & Company, Inc. is a corporation organized and existing under the laws of the State of New York. R. H. Macy & Company, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

15. Plaintiff The May Department Stores Company, Inc. is a corporation organized and existing under the laws of the State of New York. The May Department Stores Company, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

16. Plaintiff J.C. Penney Company, Inc. is a corporation organized and existing under the laws of the

State of Delaware. J.C. Penney Company, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

17. Plaintiff Proffitt's, Inc. is a corporation organized and existing under the laws of the State of Tennessee. Proffitt's, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

18. Plaintiff Selber Bros., Inc. is a corporation organized and existing under the laws of the State of Louisiana. Selber Bros., Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

19. Plaintiff Spiegel, Inc. is a corporation organized and existing under the laws of the State of Delaware. Spiegel, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the

merchandise that it sells, including textiles and textile products.

20. Plaintiff Zale Corporation is a corporation organized and existing under the laws of the State of Texas. Zale Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

21. Plaintiff Zayre Corporation is a corporation organized and existing under the laws of the State of Delaware. Zayre Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

22. Plaintiff American Association of Exporters and Importers - Textile and Apparel Group ("TAG") is an association of retailers and importers engaged in the importation of textile and apparel products and the sale of such articles. The members of TAG import and sell textiles and textile products.

23. Plaintiff Association of General Merchandise Chains, Inc. is a retail trade association whose member firms

import and sell, among other articles, textiles and textile products.

24. Plaintiff National Retail Merchants Association is a retail trade association whose members operate retail stores which import and sell, among other articles, textiles and textile products.

25. Defendant Customs Service is an agency of Defendant the United States, as defined in 5 U.S.C. § 701, organized within Defendant United States Department of the Treasury. Defendant William Von Raab is the Commissioner of Customs, and is being sued herein in his official capacity. The Customs Service is authorized and required by law to promulgate and enforce entry requirements for all imported articles and to enforce any applicable quantitative restrictions and marking requirements on the importation of articles, including textiles and textile products (with respect to which Customs receives and follows policy guidance and directives from CITA). The Customs Service, through the action of Defendant Von Raab and otherwise, promulgated the regulations complained of herein.

26. Defendant United States Department of the Treasury (the "Treasury Department") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant Donald T. Regan is Secretary of the Treasury, respon-

sible for the actions of the Treasury Department and Customs Service complained of herein. Defendant John M. Walker, Jr., is Assistant Secretary of the Treasury Department for Operations and Enforcement. The Treasury Department is authorized and required by law to supervise and direct the activities of the Customs Service and, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The Treasury Department, through the actions of Defendants Regan and Walker and otherwise, who are being sued herein in their official capacity, directed and approved the actions by the Customs Service complained of herein.

27. Defendant Committee for the Implementation of Textile Agreements ("CITA") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant Walter C. Lenahan is its chairman and is being sued herein in his official capacity. CITA is authorized and required by law to supervise the implementation of all textile trade agreements. In this capacity, CITA issued policy guidance to Defendant Customs Service and directed and approved the actions complained of herein.

28. Defendant United States Department of Commerce (the "Commerce Department") is an agency of Defendant the

United States, as defined in 5 U.S.C. § 701. Defendant Malcolm T. Baldrige is the Secretary of Commerce, responsible for all actions of that agency, and is being sued herein in his official capacity. The Commerce Department is authorized and required by law, through the membership and chairmanship of its representative, Defendant Walter C. Lenahan, in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The Commerce Department, through the actions of Defendants Baldrige and Lenahan and otherwise, directed and approved the actions by the Customs Service complained of herein.

29. Defendant United States Department of Labor (the "Labor Department") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant Raymond J. Donovan is the Secretary of Labor, responsible for all actions of that agency, and is being sued herein in his official capacity. The Labor Department is authorized and required by law, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The Labor Department, through the actions of Defendant Donovan and otherwise, directed and

approved the actions by the Customs Service complained of herein.

30. Defendant United States Department of State (the "State Department") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant George P. Shultz is the Secretary of State, responsible for all actions of that agency, and is being sued herein in his official capacity. The State Department is authorized and required by law, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The State Department, through the actions of Defendant Shultz and otherwise, directed and approved the actions by the Customs Service complained of herein.

31. Defendant Office of the United States Trade Representative ("USTR") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant William E. Brock is the United States Trade Representative, and is being sued herein in his official capacity. USTR is authorized and required by law, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. USTR, through the actions of

Defendant Brock and otherwise, directed and approved the actions by the Customs Service complained of herein.

THE REGULATIONS

32. On August 3, 1984, the Customs Service, through the actions of Defendant William Von Raab and with the approval of Defendant Treasury Department, through the actions of Defendant John M. Walker, Jr., caused to be published in the Federal Register a document giving notice of issuance and promulgation of certain "Customs Regulations Amendments Relating to Textiles and Textile Products." 49 Fed. Reg. 31,248 (1984).

33. The regulations were issued pursuant to presidential directive (Executive Order 12,475, 49 Fed. Reg. 19,955 (1984)), with policy guidance from CITA pursuant to such directive. The regulations were issued under color of authority of Section 204 of the Agricultural Act of 1956, as amended, (7 U.S.C. § 1854) ("Section 204"), ostensibly for the purpose of preventing "circumvention or frustration of visa or export license requirements contained in multilateral and bilateral agreements to which the U.S. is a party in order to facilitate the efficient and equitable administration of the U.S. Textile Import Program."

34. The regulations as written became effective immediately upon publication and applied to all textiles and textile products exported from their "country of origin" as defined therein on or after September 7, 1984, even if produced and exported pursuant to binding contracts entered into on or before August 3, 1984, the date of publication of the regulations in the Federal Register. In a subsequent press release dated August 23, 1984, Customs announced that the regulations would not apply to textile and textile products shipped from their country of origin prior to October 31, 1984 but only if contracted for before August 3, 1984.

35. The regulations, and the de facto amendment thereto by the August 23 press release, were not issued in proposed form. No notice of proposed rulemaking, affording interested persons an opportunity to participate in the rulemaking by the submission of data, views, or arguments, was published in the Federal Register prior to their issuance, as required by Sections 553(b)-(c) of the Administrative Procedure Act (5 U.S.C. § 553(b)-(c)). The regulations were claimed to be exempt from these requirements on the grounds that they are "within the foreign affairs

function of the U.S. and the foreign affairs exemption of 5 U.S.C. § 553(a)(1)."

36. The regulations amend the procedures and practices under which the Customs Service, under the direction of CITA, requires the presentation of visas or export licenses for importations of textiles and textile products which are subject to quantitative limitations under certain bilateral textile trade agreements to which the United States is a party or pursuant to unilaterally imposed restraints. With a few exceptions, these bilateral agreements were entered into by the United States and its trading partners under the auspices of the Multifiber Agreement ("MFA"), a multilateral agreement entered into in 1973 to establish a framework for regulating and facilitating trade in textiles and textile products among participating countries. The MFA was renewed in 1977 and 1981, and remains in effect.

37. The regulations disregard applicable precedents of this Court and depart from long-established Customs Service principles and practices, in the following respects among others:

(a) The regulations disregard country of exportation principles under textile trade agreements and, instead, provide that "country of origin" rules are to be applied exclusively for purposes of applying quantitative restrictions on textile products.

(b) In the case of textiles or textile products which consist, in whole or in part, of materials which originated, or were processed, in another foreign country, the regulations impose a double requirement in determining their "country of origin": i.e., the textile or textile product must have undergone in the latter country not only a "substantial transformation" into a new and different article of commerce with a name, character, or use distinct from the article or material from which it was so transformed but, in addition, a manufacturing or processing operation which is deemed substantial in comparison to the manufacturing and/or processing operations performed on the product in other countries.

(c) The regulations purport to establish criteria for determining whether, as a result of a manufacturing or processing operation, a new and different article has been produced; i.e., whether a change in commercial designation or identity; change in essential character; and change in commercial use has occurred. The regulations contemplate that all of these criteria will be applied and considered in each instance and, as contrasted with longstanding customs principles and precedent, that the satisfaction of one of them will not, in and of itself, be sufficient to establish that a "substantial transformation" has occurred.

(d) The regulations state categorically that textiles and textile products will not be deemed to have been substantially transformed by virtue of having merely undergone any of the following: (a) combining or packaging operations; (b) the joining together by sewing, looping, linking, or other means of attaching otherwise completed component parts; (c) cutting or otherwise separating of articles from materials which have previously been marked with cutting lines or which contain lines of demarcation, of any type, commercially requiring that material be cut in a certain manner; or (d) processing, such as dying, printing, showerproofing, superwashing, or other finishing operations.

38. The "country of origin" standards embodied in the regulations apply to textiles and textile products not

just for purposes of administering quantitative restrictions, but also for country of origin marking purposes, notwithstanding 19 U.S.C. § 1304, Customs' regulations contained in 19 C.F.R. Part 134 and pertinent decisions and rulings thereunder.

39. The Customs Service intends to apply the regulations to require that imports from foreign countries of textiles and textile products assembled from U.S. components be subject to quantitative restrictions and visa and export licensing requirements even if they are deemed of U.S. origin under the regulations.

40. The regulations require that all imports of textiles and textile products be accompanied by a declaration containing comprehensive information regarding materials and manufacturing and processing operations and the costs thereof. This information is proprietary in nature and originates with persons involved in the manufacturing and processing operations, not with the importer. The Customs Service will deny entry and not release merchandise from Customs custody in the absence of a properly executed declaration which contains information sufficient and satisfactory to the Service for its determination of country of origin.

41. The regulations require that visas or export licenses be presented as part of the entry documents for

entries of textiles or textile products for immediate transportation in bond without appraisement under 19 C.F.R. § 18.11.

IRREPARABLE INJURY

42. As of August 3, 1984, RITAC's members had in force numerous binding contracts to purchase textiles and textile products for shipment from their country of origin on or after October 31, 1984. Such contracts have therefore been made subject to the standards and procedures of the regulations on a retroactive basis. The merchandise covered by such contracts was purchased with provision for compliance with any applicable quantitative restrictions and the procurement of any necessary visas or export licenses, as well as country of origin marking, on the basis of judicial precedent and longstanding Customs principles and decisions and regulations in effect prior to August 3, 1984.

43. In many instances, the regulations have changed the "country of origin" of such merchandise from that determined under the above-mentioned precedents, principles and regulations, rendering the visas or export licenses already procured useless as they will not permit the entry of the merchandise into the United States under the new regulations. RITAC's members have thereby been deprived of the

amounts already paid in respect of visas or export licenses. In addition, the changed country of origin requires remarking of goods. Most important, RITAC's members are in jeopardy of losing most, or all, of the value of the goods, payment for which has typically been secured by irrevocable letters of credit. This is because, to a large extent, the necessary quota from the newly designated country of origin is not available, so the goods in question will be delayed or denied entry into the United States.

44. As applied to textiles and textile products not wholly the manufacture, product or growth of a single country, the regulations have eradicated the predictability of country of origin determinations, which has been achieved by the development of judicial precedent, Customs principles and decisions and the marking regulations.

Because the regulations were promulgated without prior notice, without regard for pre-existing contracts, and without regard for prior practice, RITAC's members are experiencing disruption and dislocation of their purchasing arrangements for textile and textile products, and serious interference with, and nullification of, their rights under pre-existing contracts.

45. The regulations' declaration requirements impose a heavy burden on RITAC's members and present funda-

mental difficulties in gathering information which is usually proprietary to the producer. Moreover, the regulations permit the Customs Service to deny entry while Customs makes a determination of country of origin based upon the declaration, with no deadline set for this determination. For these reasons, the declaration requirements threaten to cause substantial, and totally unnecessary, delays in the entry of merchandise, leading to irreparable loss of their value.

46. The regulations' requirements that imports of textiles and textile products be accompanied by visas or export licenses during in-bond movements greatly burden and restrict operations that up until now have been routinely performed and acceptable in the trade and which RITAC's members have utilized in conducting their businesses.

47. Finally, RITAC's members have an immediate and substantial interest in any new country of origin criteria established for purposes of administering quantitative restrictions or for marking purposes. They would have participated actively in the rulemaking process had notice and opportunity to comment been afforded prior to the promulgation of the regulations, as required by 5 U.S.C. § 553(b)-(c). However, because the regulations were issued without complying with these required procedures, RITAC's members have been denied their fundamental legal rights, which rights

cannot be restored unless enforcement of the regulations is enjoined.

48. For the above reasons, RITAC's members are now suffering, and will continue to suffer, and are threatened with, serious and irreparable injury, for which there is no adequate remedy at law. Defendants should be enjoined and restrained from enforcing them forthwith.

FIRST CAUSE OF ACTION

49. Plaintiffs repeat and reallege the allegations contained in paragraphs 1 through 48 above, as if set forth in full herein.

50. The regulations are "rules" as defined by Section 551(4) of the Administrative Procedure Act (5 U.S.C. § 551(4)), and their promulgation by publication in the Federal Register on August 3, 1984, constitutes "rulemaking" under Section 551(5) of the Administrative Procedure Act (5 U.S.C. § 551(5)).

51. Sections 553(b)-(c) of the Administrative Procedure Act (5 U.S.C. § 553(b)-(c)) require that an agency publish general notice of proposed rulemaking in the Federal Register, and give interested persons an opportunity to participate in the rulemaking through submission of written data, views or arguments, prior to promulgation of a rule.

52. The regulations were promulgated by the Customs Service on August 3, 1984, without prior publication in the Federal Register of a notice of proposed rulemaking and without affording interested persons the opportunity to participate in the rulemaking by the submission of written data, views, or arguments prior to promulgation, as required under 5 U.S.C. § 553(b)-(c).

53. The regulations are not exempt from the requirements of 5 U.S.C. § 553(b)-(c) in that they do not involve a foreign affairs function of the United States within the meaning of 5 U.S.C. §553(a)(1), as claimed by the Customs Service.

54. For the above reasons, promulgation of the regulations by the Customs Service was without observance of procedure required by law. Accordingly, the regulations should be held unlawful and set aside under 5 U.S.C. § 706(2)(D).

SECOND CAUSE OF ACTION

55. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

56. The regulations operate and are applied to determine the country of origin of textiles and textile prod-

ucts for purposes of the marking requirements of 19 U.S.C. § 1304. Such marking requirements are not within the foreign affairs function of the United States, and so the regulations are not exempt from the requirements of 5 U.S.C. § 553(b)-(c) by virtue of the exemption therefrom under 5 U.S.C. § 553(a)(1), as claimed by the Customs Service.

57. For the above reasons, promulgation of the regulations by the Customs Service was without observance of procedure required by law. Accordingly, the regulations should be held unlawful and set aside under 5 U.S.C. § 706(2)(D).

THIRD CAUSE OF ACTION

58. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

59. The regulations violate the terms of the MFA in numerous respects, including the following:

(a) The regulations base quantitative restrictions on textiles and textile products on their purported "country of origin", in contravention of MFA Article 3, which contemplates regulation of trade in such products based upon their country of exportation.

(b) The regulations constitute an additional non-tariff barrier to trade in textiles and textile products, in contravention of MFA Article 3, paragraph 7.

(c) The regulations constitute a scheme for the administration of quotas and restraints levels in a manner to frustrate their full utilization, in contravention of MFA Article 5.

(d) The regulations constitute a scheme to frustrate the effective operation of the MFA, in contravention of Article 7.

(e) The regulations treat as circumvention manufacturing and processing steps which constitute substantial transformation of textiles and textile products, in contravention of MFA Article 8, paragraph 1, which defines circumvention as transshipment, rerouting or action by non-participants. Moreover, the unilateral imposition of the regulations contravenes MFA Article 9, paragraph 2, which requires consultation among participating countries regarding issues of perceived circumvention.

(f) The regulations constitute additional action by Defendants which has the effect of nullifying objectives of the MFA, in contravention of MFA Article 9, paragraph 1.

(g) The regulations violate the terms of the various bilateral textile trade agreements to which the United States is a party in the manner specified above and in other respects, since these agreements are based upon and were entered into pursuant to the MFA.

60. The regulations were promulgated under color of authority of Section 204 of the Agricultural Act of 1956, as amended. That section authorizes the issuance of regulations only to "carry out" the provisions of the MFA and of the various bilateral textile trade agreements.

61. The regulations do not "carry out" the MFA and the various bilateral textile trade agreements but, to the contrary, violate them.

62. For the above reasons, issuance of the regulations was not within the delegated authority of Section 204, and the regulations are therefore in excess of statutory authority. Accordingly, the regulations should be held unlawful and set aside under 5 U.S.C. § 706(2)(C).

FOURTH CAUSE OF ACTION

63. Plaintiffs repeat and reallege the allegations

set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

64. The regulations purport to establish criteria for determining the country which must issue visas or export licenses in order to permit the entry of textiles and textile products subject to quantitative restrictions. These criteria are directly contrary to the holding of the Court of International Trade in Cardinal Glove Co., Inc v. United States, 4 CIT 41 (1982).

65. Customs and CITA have no statutory authority, and are without constitutional power, to issue rules which overturn holdings of the Court of International Trade.

66. Accordingly, the regulations are contrary to constitutional power and are in excess of statutory jurisdiction and authority, and should be held unlawful and set aside under 5 U.S.C. § 706(2)(B)-(C).

FIFTH CAUSE OF ACTION

67. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

68. The regulations were promulgated and take action without a rational basis on the record, including the following:

(a) The regulations purport to overturn binding court precedent on the "country of exportation" requirement for a visa or export license for textiles and textile products subject to quantitative restrictions.

(b) The regulations establish visa requirements, country of origin criteria, documentation requirements, and other requirements that violate the provisions of the MFA and the various bilateral textile agreements that the regulations purportedly "carry out."

(c) The regulations establish country of origin rules that are inconsistent with court precedent and depart radically from longstanding Customs principles and decisions and marking regulations.

(d) The regulations are retroactive in their effect, impacting upon transactions entered into before August 3, 1984.

(e) The regulations were issued without developing an adequate record. No notice and opportunity to comment was afforded to interested parties, as required by 5 U.S.C. § 553(b)-(c). The requirements of the Regulatory Flexibility Act (5

U.S.C. § 603 *et seq.*) were disregarded, as was the requirement to prepare a regulatory impact analysis pursuant to Executive Order 12,291, despite the recognition by Defendants of the significant impact that the regulations will have.

69. The regulations bear no rational relationship to the goals that they are purportedly designed to achieve:

(a) The regulations do not prevent circumvention and frustration of textile trade agreements and thus carry them out; rather, they violate such agreements.

(b) The regulations impose requirements relating to documentation, in-bond treatment and other matters that are onerous and burdensome and restrictive and are unnecessary to achieve their stated goal of preventing circumvention and frustration of textile trade agreements.

(c) The regulations are discriminatory on their face, in that they purport to apply general principles respecting "country of origin" but apply them only to imports of textiles and textile products subject to quantitative limitations, and to no other imported merchandise.

(d) The regulations carve out an exception from their "country of origin" criteria for merchandise assembled abroad from U.S. components, so as to subject imports of such merchandise to quantitative restrictions.

(e) The regulations were issued not for the reasons stated therein but for extraneous purposes, including to disrupt trade in textiles and textile products and increase quantitative restrictions thereon in furtherance of political goals.

70. For the above reasons, the regulations are arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with law, and so should be held unlawful and set aside under 5 U.S.C. § 706(2).

SIXTH CAUSE OF ACTION

71. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

72. The regulations are retroactively effective with respect to textiles and textile products covered by contracts entered into by RITAC's members on or before August 3, 1984.

73. The regulations operate to alter the rules under which the proper visas or export licenses for such merchandise is determined and to exclude such merchandise from the United States in the event that the visas or export licenses contemplated under the contracts in question are not correct under the new standards of the regulations.

74. The regulations thereby impair preexisting contractual rights and obligations inuring to the benefit of RITAC's members, in violation of Article I, Clause 10 of the Constitution of the United States, made applicable to the Federal Government (and, accordingly, to Defendants herein) by the Fifth Amendment to the Constitution.

75. The regulations are in excess of the authority delegated by Congress under Section 204, in that that provision does not authorize the promulgation of regulations that are retroactive in their effect.

76. For the above reasons, the regulations are contrary to constitutional power and are in excess of statutory authority, and should be held unlawful and set aside under 5 U.S.C. § 706(B)-(C).

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray that this Court enter an Order:

1. Declaring the regulations to be unlawful, and null, void and unenforceable;

2. Preliminarily and permanently enjoining each Defendant and its officers, agents, servants, employees, and attorneys, and all persons acting in concert with them, from implementing or enforcing the regulations; and

3. Awarding to Plaintiffs such other and further relief as this Court may deem necessary and proper.

Stuart M. Rosen

August 29, 1984

Stuart M. Rosen

Of Counsel:

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Attorneys for Plaintiffs

RITAC

RETAIL INDUSTRY TRADE ACTION COALITION

September 10, 1984

Mr. Walter C. Lenahan
Deputy Assistant Secretary
for Textiles and Apparel
Room 3001
United States Department of Commerce
Washington, D.C. 20230

Dear Mr. Lenahan:

On behalf of The Retail Industry Trade Action Coalition (RITAC), which consists of the chief executive officers of 20 retail firms and six national trade retail associations, I am writing to object to the restrictions recently imposed on imports of man-made fiber mens and boys shirts from Indonesia. The members of RITAC are listed on the enclosed sheet. We believe the call is illegal and unjustified; the restrictions should be lifted immediately.

Background

On June 21, 1984, notice was published in the Federal Register indicating that, pursuant to Article 3 of the MFA and Section 204 of the Agricultural Act of 1956, as amended, the United States had requested consultation with Indonesia to discuss trade in Category 640, covering man-made fiber mens and boys shirts. The notice also indicated that a temporary restraint of 49,801 dozen during the May 29 through August 26, 1984 period had been placed upon imports of Category 640 merchandise. 49 Fed. Reg. 25498. This action has caused substantial economic loss to RITAC member companies.

As we explain more fully below, the United States' action concerning trade in Category 640 merchandise from Indonesia was taken in total disregard of the requirements of the MFA to show that imports of man-made fiber mens and boys shirts from Indonesia are causing market disruption.

Procedural Defects

The failure of the U.S. government to have provided advance notice of the call and a reasonable opportunity to comment was in violation of the due process rights of our member companies and has caused them serious harm. As you know, the

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question of the applicability of Constitutional and statutory procedural safeguards to the U.S. textile import program is now pending before the Court of Appeals for the Federal Circuit in the American Association of Exporters and Importers - Textile and Apparel Group (AAEI-TAG) lawsuit. Regardless of the outcome of that appeal there can be no doubt as to the harm these procedural shortcomings have caused.

That harm includes additional costs and delays in entering merchandise subject to the call, the actual embargo of merchandise already shipped and paid for, and the curtailment or delay of imports already ordered and paid for through irrevocable letters of credit. Our members' losses were compounded by the lack of advance notice, since they continued to engage in normal business transactions up to the very day of the June 21, 1984 notice. Not only would a suitable notice period have given our members an opportunity to comment on the merits of the prospective call, possibly persuading the United States not to issue the call, but, equally important, such a period would have permitted our members to avoid incurring additional economic loss through the continuing conclusion of new contracts involving Category 640 merchandise from Indonesia. We can see no justification for denying American importers and retailers the minimal procedural protection of a suitable notice period.

Lack of Compliance with MFA Requirements

Paragraph 1 of Annex A of the MFA requires that "the determination of a situation of 'market disruption' . . . *shall be based* on the existence of *serious* damage to domestic producers or *actual threat thereof*." (Emphasis added.) In determining whether "serious damage" has been caused by increased imports, the MFA requires the United States (and other importing countries) to consider turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. Moreover, Paragraph 1 specifically provides that "(n)o one or several of these factors can necessarily give decisive guidance."

The requirements for finding market disruption or threat thereof do not stop there. For instance, in contrast with the rough price measures reflected in the May 1984 Market Statement, prices compared must be for "similar goods of comparable quality" and they must be compared "with the prices which normally prevail for such products sold in the ordinary course of trade and under open market conditions by other exporting countries in the importing country."

In addition to Paragraph 1 of Annex A, Article 6 of Appendix A of the MFA acknowledges that based on ". . . the need for special treatment for exports of textile products from developing countries, the *criterion of past performance shall not be applied in the establishment of quotas for their exports of products from those textile sectors in respect of which they are new entrants in the markets concerned* and a higher growth rate shall be accorded to such exports . . . ." (Emphasis added.) The fact that in 1981 U.S. imports of Category 640 merchandise from Indonesia only amounted to one thousand dozen is indicative of Indonesia's "new entrance" of Category 640 merchandise into the marketplace. Furthermore, when U.S. imports of Category 640 merchandise from Indonesia are compared to the total quantity of U.S. imports of Category 640 merchandise for the year ending

March 1984 (152 to 11,443 thousand dozen), it is very difficult to justify the "serious disruption" that the U.S. domestic market is experiencing from U.S. imports of Category 640 merchandise produced by Indonesia.

The June 21, 1984, call was issued in blatant disregard of these requirements. The mechanistic enumeration of 1983 import data, 1982 production data, and import to production ratios based thereon, coupled with conclusory and unsupported statements concerning price underselling and market disruption, falls far short of meeting the standards for taking restrictive import actions set forth in the MFA. Moreover, while the May 1984 Market Statement claims that there has been a "sharp and substantial increase of imports" of Category 640 merchandise, in fact in 1983 total imports of this merchandise decreased, and for the twelve-month period ending March 1984 the level of imports still remains below the 1982 level. As such, the United States' action was in clear contravention of the commitment made by the United States in the 1981 Protocol extending the MFA to abide by the "discipline" of the MFA's market disruption standard.

The MFA also requires the United States to take account of the interests of the exporting country, including the exporting country's state of development, the importance of the textile sector to the economy, the employment situation, overall balance of trade in textiles, trade balances with the importing country concerned and overall balance of payments. In the case of Indonesia this additional information is relevant. According to the Federal Financial Institutions Examination Council, Indonesia owes U.S. banks more than $3 billion dollars. Indonesia depends upon its textile trade to repay this outstanding debt. Moreover, based on Department of Commerce statistics, the United States had a 1983 trade surplus of over $1 billion with Indonesia.

The United States improperly ignored this information, as well. Had it examined this information, it would certainly have concluded that restraining trade in Category 640 merchandise will affect Indonesia's future ability to purchase U.S. exports.

It is time, RITAC submits, for the United States to cease harming American importers, retailers, exporters and consumers by taking restrictive actions in blatant disregard of the applicable standards established in the MFA and made applicable by bilateral agreement and fundamental principles of U.S. administrative law. As long ago as December 28, 1981, the United States admitted in a U.S. Department of Commerce solicitation to procure data from national consumer apparel panels,[1] that "there is a lack of sufficient and timely apparel production, sales, consumption and price data . . . necessary to identify market disruption resulting from imports and to determine and monitor current trends in apparel markets." Since the date of that solicitation, there has been no discernible improvement in the United States' informational capabilities, as witnessed by the June 21, 1984 call on Category 640 from Indonesia.

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[1] No. SA-RSB-82-0011.

Absence of Market Disruption

Current published information concerning the condition of the domestic industry and information that our members have been able to obtain demonstrate the absence of market disruption or threat thereof to the domestic industry. The pertinent information demonstrating the absence of actual or threatened market disruption is set forth below.

The threshold requirement for demonstrating actual or threatened market disruption is that the domestic industry be seriously damaged or threatened with serious damage. Although no data are available on a category-specific basis, the information that is available demonstrates that the domestic producers of Category 640 merchandise are part of an industry that is currently enjoying remarkably healthy business conditions. Thus, in contrast with the production and other information relied upon by the United States in finding market disruption, the June 16, 1984 Federal Reserve Board Report on Capacity Utilization and Output of U.S. manufacturing sectors shows that the output index for textile manufacturers had grown by almost 4 percentage points between the second quarter of 1983 and the first quarter of 1984. Moreover, in May 1984 U.S. producers of textile products were operating at 85.7 percent of capacity utlization. Recently issued Bureau of Labor Statistics data show, also, that employment of textile mill workers was up almost 2 percent from July 1983 to July 1984. During the same time period employment for apparel workers increased over 4 percent. This translates into a gain of over 60,000 jobs in this sector of the U.S. economy. These statistics create a presumption that the domestic textile/apparel industry is not experiencing market disruption or threat thereof.

Recent articles in the trade press confirm the favorable picture that official U.S. government statistics paint of the industry's current condition. For example, a May 7, 1984 Wall Street Journal article reports that U.S. textile manufacturers experienced a 68 percent net increase in profits on continuing operations between the first quarter of 1983 and the first quarter of 1984. Moreover, according to an article published in the April 19, 1984 Daily News Record, U.S. man-made fiber producers experienced an 8 percent increase in capacity utilization from 78.8 percent capacity untilization in May 1983 to 85.4 percent capacity ultilization in March 1984. Similarly, on May 10, 1984, the Daily News Record reported that shipments of man-made fiber by U.S. producers were 8 percent higher in the first quarter of 1984 compared with the first quarter of 1983.

Finally, data independently collected by RITAC and the National Retail Merchants Association ("NRMA") suggest that U.S. apparel manufacturers are, in fact, responsible for a large percentage of the shipments of Category 640 merchandise from Indonesia. RITAC and NRMA interviewed the senior merchants of 18 general merchandise retail firms with annual sales in excess of $80 billion dollars. The merchants were questioned extensively about their firms' orders of Category 640 merchandise during the twelve-month period ending March 31, 1984. Only 20 percent of the respondents had actually placed any orders for this type of merchandise in Indonesia. Moreover, the total number of orders placed during the twelve-month period ending March 31, 1984, by responding firms accounts for only 25 percent of the total shipments of Category 640 merchandise from Indonesia for the period, and these same firms accounted for only only 12 percent of the shipments made in the first three months of 1984. While the 18 firms interviewed do not account for all direct orders of Category 640 merchandise from Indonesia placed by retailers, we believe they account for the majority of orders directly placed by retail firms for the period. This is because the firms in our sample include most, if not all, of the major U.S. chain and department stores, and because most smaller retailers do not directly import, but instead limit their purchases to domestic sources. Thus, we believe that the bulk of the remainding trade in Category 640 merchandise from Indonesia — certainly well over 50 percent — must be the result of orders placed by U.S. manufacturers. A finding of market disruption or threat thereof cannot, we submit, be predicated even in part on such U.S. manufacturers' imports.

In short, it is clear that, in violation of the MFA requirements the June 21, 1984 call was not based on any demonstration of market disruption or threat thereof. For the reasons set forth above, we urge that the June 21, 1984 call be withdrawn before additional harm is caused to our members as a consequence of the procedurally and substantively defective action.

Sincerely,

William A. Andres

William A. Andres
Chairman

edr
Enclosure
cc: Honorable Malcolm Baldrige
    Ambassador William E. Brock
    Honorable Raymond J. Donovan
    Ambassador Richard H. Imus
    Honorable Donald T. Regan
    Honorable George P. Shultz

    Mr. William E. Barreda
    Mr. Irvine I. Kramer
    Mr. Paul Pilkauskas

RITAC

RETAIL INDUSTRY TRADE ACTION COALITION

July 2, 1984

Mr. Walter C. Lenahan
Deputy Assistant Secretary
for Textiles and Apparel
United States Department of Commerce
Room 3001
14th Street Between Constitution Avenue
and E Streets, N.W.
Washington, D.C. 20230

Dear Mr. Lenahan:

On behalf of The Retail Industry Trade Action Coalition (RITAC) which consists of chief executive officers from 20 retail firms and six national trade retail associations, I am writing to object to the restrictions imposed on man-made fiber luggage. The members of RITAC are listed on the enclosed sheet. We believe the call is illegal and unjustified. The restrictions should be lifted as soon as possible.

Background

On January 13, 1984, notice was published in the Federal Register indicating that, pursuant to Article 3 of the MFA, the United States had requested consultation with the Republic of Korea to discuss trade in Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152), covering man-made fiber luggage. The notice also indicated that a "temporary restraint" of 18,435,270 pounds had been placed upon imports of Categroy 670 (only T.S.U.S.A. Nos 706.4144 and 706.4152) merchandise. 49 Fed. Reg. 1786 (January 13, 1984).

The temporary restraint limit has nearly been reached, and in the near future no more imports of man-made fiber luggage from Korea will be allowed to enter the U.S. market. This action has resulted in serious damage to the business of RITAC member companies. In our view, the merchandise does not fall within the purview of the MFA, and therefore the restraint is not permitted. Moreover, even if the merchandise does fall within the purview of the MFA, it is clear that the requirements of the MFA have been ignored.

Chairman	*Vice Chairman*	*Treasurer*	*Managing Director*
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Procedural Defects

The United States' failure to provide advance notice of the call and an opportunity to comment violated our members' statutory and Constitutional due process rights and caused them serious harm. As you know, the question of the applicability of Constitutional and statutory procedural safeguards to the U.S. textile import program is now pending before the Court of Appeals for the Federal Circuit in the American Association of Exporters and Importers - Textile and Apparel Group (AAEI - TAG) lawsuit. Regardless of the outcome of that appeal there can be no doubt as to the harm these procedural shortcomings have caused.

That harm includes additional costs and delays in entering merchandise subject to the call, the actual embargo of merchandise already shipped and paid for, and the curtailment or delay of imports already ordered and paid for through irrevocable letters of credit. Our members' economic losses were compounded by the lack of notice because, until the day of the January 13, 1984, Federal Register notice, these companies continued to engage in normal business transactions with no reason to know that the United States government was poised to undo the benefit of their transactions. Not only would a suitable notice period have given our members an opportunity to comment on the merits of the prospective call, possibly causing the United States to have refrained from its issuance, but equally important, such a period would have allowed importers to avoid incurring additional economic loss through the continuing conclusion of new contracts involving Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152) merchandise. We can see no justification for denying American importers and retailers the minimal procedural protection of a suitable notice period.

Lack of Compliance with MFA Requirements

RITAC submits that much of the luggage which has been made the subject of this call is not even chiefly composed of textile materials either by weight or value, but are composed chiefly of vinyl or other products. This means, therefore, that the United States has no authority to restrain the importation of such luggage, since these products are not textile products at all, as they are defined by the MFA.

RITAC believes these products are not covered by the MFA. However, even if these products were covered, the January 13, 1984, call was issued in blatant disregard of applicable substantive requirements. The January 1984 market statement mechanistically enumerates import and production date and the import to production ratios based upon these data, without fully explaining how these data were obtained. In any case, the accuracy of the data relied upon is problematical, since the import data prior to June 1982 are estimated using a questionable methodology based on assumptions which are not valid (i.e., constant product mix from year to year.) Moreover, imports are measured in pounds, not units, which raises a question as to whether the non-textile weight of luggage (which can be substantial) has been excluded or included in the import estimates. In addition, the statement makes unsupported statements concerning price underselling and market disruption, and thus, falls far short of meeting the standards for taking restrictive import actions set forth in the MFA.

Paragraph 1 of Annex A of the MFA requires that "the determination of a situation of 'market disruption' . . . shall be based on the existence of serious damage to domestic producers or actual threat thereof." (Emphasis added.) In determining whether "serious damage" has been caused by increased imports, the MFA requires the United States (and other importing countries) to consider turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. Moreover, Paragraph 1 specifically provides that "(n)o one or several of these factors can necessarily give decisive guidance."

The requirements for finding market disruption or threat thereof do not stop there. For instance, in contrast with the rough price measures reflected in the January 1984 Market Statement, prices compared must be for "similar goods of comparable quality" and they must be compared "with the prices which normally prevail for such products sold in the ordinary course of trade and under open market conditions by other exporting countries in the importing country." In the case of Category 607 merchandise, it is not at all clear that the products compared are, in fact, similar. Was the domestically produced item chiefly made of nylon or was it made of some other, non-textile, material such as plastic or leather?

The MFA also requires the United States to take account of the interests of the exporting country, including the exporting country's state of development, the importance of the textile sector to the economy, the employment situation, overall balance of trade in textiles, trade balances with the importing country concerned and overall balance of payments. The January 13, 1984, call ignored this requirement, as well as the others previously mentioned, in clear contravention of the committment made by the United States in the 1981 Protocol extending the MFA to abide by the "discipline" of the MFA's market disruption standard.

It is time, RITAC submits, for the United States to cease harming American importers, retailers, and consumers by taking restrictive actions in blatant disregard of the applicable standards established in the MFA, and made applicable by bilateral agreement and fundamental principles of U.S. administrative law. As long ago as December 28, 1981, the United States admitted in a United States Department of Commerce solicitation to procure data from national consumer apparel panels,[1] that there is a lack of sufficient and timely apparel production, sales, consumption and price data . . . necessary to identify market disruption resulting from imports and to determine and monitor current trends in apparel markets." Since the date of that solicitation, there has been no discernible improvement in the United States government's informational capabilities, as witnessed by the January 13, 1984, call on Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152) from the Republic of Korea.

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[1] No. SA-RSB-82-0011.

Absence of Market Disruption

Current published information concerning the condition of the domestic industry and information that our members have been able to obtain demonstrate the absence of market disruption or threat thereof to the domestic industry. The pertinent information demonstrating the absence of actual or threatened market disruption is set forth below.

The threshold requirement for demonstrating actual or threatened market disruption is that the domestic industry be seriously damaged or threatened with serious damage. Although no data are available on a category-specific basis, the information that is available demonstrates that the domestic producers of textiles used in the production of Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152) merchandise are part of an industry that is currently enjoying remarkably healthy business conditions. Thus, in contrast with the production and other information relied upon by the United States in finding market disruption, the June 1984 Federal Reserve Board Report on Capacity Utilization and Output of U.S. manufacturing sectors shows that output index for textile manufacturers had grown by 13.7 percentage points between the first quarter of 1983 and the first quarter of 1984. Moreover, in May 1984 U.S. producers of textile products were operating at 88 percent of capacity utilization, up from 85.4 percent in the same month a year ago. Recently issued Bureau of Labor Statistics data show, also, that employment of textile mill workers was up 4 percent from May 1983 to May 1984. These statistics create a presumption that the domestic textile industry is not experiencing market disruption or threat thereof.

Moreover, there is no proof contained in the January 1984 Market Statement that U.S. manufacturers of luggage products have, in fact been injured as a result of import growth. Quite the contrary may be true. A February 1983 article which appeared in Industrial Fabrics Product Review indicates, for instance, that U.S. consumption of Nylon fabrics in the production of soft-side luggage increased from 6.1 million pounds in 1980 to 8.9 million pounds in 1982. A similar increase has occured in the consumption of Cordura nylon and in cotton/polyester blend fabrics. In 1980 U.S. consumption of these fabrics was 1.48 and 1.85 million pounds respectively, in 1982 U.S. consumption had increased to 3.02 and 2.32 million pounds. Moreover, the January 1984 issue of Industrial Fabrics Product Review reports that total U.S. production of soft side luggage in 1983 increased 5 percent and U.S. production is expected to increase by 10 percent in 1984.

In addition to these astounding figures, RITAC submits that a substantial percentage of luggage imports are brought into the country by U.S. manufacturers, themselves.

In short, it is clear that, in violation of the applicable MFA requirements, the January 13, 1984, call was not based on any demonstration of market disruption or threat thereof to either U.S. textile or luggage producers. For the reasons set forth above, we urge that the January 13, 1984, call be withdrawn before additional harm is caused to our members as a consequence of the procedurally and substantively defective action.

Sincerely,

William A. Andres

William A. Andres
Chairman

WAA:RWL:edr
Enclosure

Senator MATHIAS. Thank you very much, Mr. Arena.

Mr. Schwensen, you already have had an introduction from Senator Pressler.

STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, DC

Mr. SCHWENSEN. Yes, Senator Pressler did a fine job in outlining the issues that confront wheat farmers and other farmers who have a vital interest in export trade. Our concern as we look at the textile problem is with the transfer of resources from the farm sector to another sector and the losses that are incurred to trade, to jobs, and to farm income.

Frankly, as we see it, there is no way to improve our domestic agriculture without increasing our exports, and developing markets represent the opportunities in the export area. So, we have to be able to export to these markets, but they have to be able to generate currency to buy our products.

What we are saying is that trade cannot be a one-way street; that developing nations that are producing goods should have access to the U.S. market to be able to generate the kind of income that they need to purchase our farm products.

The example that has been cited several times here this morning is the Chinese boycott of the U.S. wheat market during 1983. It had disastrous impact on U.S. wheat farmers. At issue in the dispute, as we calculate it, was about $50 million in trade, covering Chinese textile, apparel and textile goods. On the other hand, we calculate that the losses during this boycott to the U.S. farmers were $700 million—not a very good tradeoff in anyone's judgment.

We are concerned now in 1984 with the country of origin rules, which have been referenced previously. China has not been in the market. She has purchase obligations amounting to 4.2 million tons—4 million tons less than which she is obliged to purchase between now and the end of this calendar year. There has been no market activity on the part of China, however. So increasingly we are looking at the prospect of using another $500 million worth of wheat sales this year.

There are countervailing duty investigations before the International Trade Commission covering textiles. Those investigations we understand are valued at about $1 billion. Farm trade with those 13 nations is approximately three times that amount, or $2.78 billion. When we group these 13 nations with the nations that we expect to be most seriously impacted by the Customs Service rules, we see that these markets represent almost 35 percent of U.S. wheat trade.

We have been pleased recently by President Reagan's decisions with regard to copper and steel imports, where he selected the least protectionist of the number of options that were before him. We hope that his decision on steel steers a course away from damage to our farm export sector. We can only hope that this path that the President has embarked on, toward finding nonprotectionist or less protectionist solutions to our trade problems, will lead to reconsideration of the country of origin rules, which seriously jeopardize our markets.

Finally, it is obvious to us that we cannot boost markets for U.S. goods as long as we continue to zap our customers. Agriculture is export dependent. Farm prices for the second year now have been at low, at Depression levels, and we are not making progress to increase prices.

Progress in our judgment has to be dealt with through expanded trade and also dealing with macroeconomic conditions, which are a problem for wheat farmers as much as they are for the domestic textile industry.

Thank you, Mr. Chairman.

[Mr. Schwensen's prepared statement follows:]

Statement of Carl Schwensen, Executive Vice President
National Association of Wheat Growers
before the
International Economic Policy Subcommittee
of the
Senate Committee on Foreign Relations
September 26, 1984

Mr. Chairman and members of the Subcommittee:

The nation's wheat growers appreciate this opportunity to present their views today on the subject of "Textile and Apparel Imports - Free Trade or Unfair Trade?" I am Carl Schwensen, executive vice president of the National Association of Wheat Growers which is headquartered in Washington, D.C.

First, I want to make it clear that I appear here today not as a specialist on the textile industry or an an advocate of policies which would weaken its viability. I appear because substantial resources have been transferred from the farm sector as a result of textile trade policies implemented by the Reagan Administration in 1983 and 1984, and because wheat growers see that these protectionist barriers are being paid for through substantial losses in U.S. trade, jobs and farm income.

Unlike the 1970's when rising world demand and a weak U.S. dollar brought substantial gains in the farm export sector, we are currently experiencing a steady reversal in export volume, and the U.S. Agriculture Department projects that trade for fiscal 1984 will decline for the fourth consecutive year. U.S. agriculture, and the wheat industry in particular, is export-dependent, and economic recovery will not occur unless farm exports are increased.

Moreover, the task of boosting farm exports depends in large measure on selling more to the world's developing nations where substantial growth potential exists. It follows, therefore, that developing countries will not be able to purchase U.S. farm products unless they can generate earnings from the sale of their own goods. Stated differently, trade is not a one-way street. We cannot expect to achieve export gains while at the same time building higher walls of protection around U.S. markets.

The most recent example of protectionist injury to the U.S. wheat sector is also the most dramatic. During the protracted U.S.-China textile negotiations of 1983, the Chinese boycotted the U.S. wheat market, and the value of our exports to this market declined to $377 million from a level of $1.05 billion in the previous year -- a 64 percent drop representing losses to U.S. growers of nearly $700 million.

While the level of wheat exports to China improved during the first part of 1984, and official statements were made that this year's minimum six million ton purchase obligation and 1983's 2.2 million ton shortfall would be met, China has not been in the U.S. market to cover these commitments, and we fear that the so-called "country of origin" textile rules which took effect on September 7 will cause China to once again abandon the U.S. wheat market and her purchase obligations. The Chinese government is very upset over the new customs service regulations, and it has urged that they be withdrawn to "protect the normal trade relationship between the two countries from being unecessarily damaged." If China does retaliate, the cost to U.S. wheat growers will be over $500 million between today and the end of December. Further, the real prospect exists that China may decide not to renew the 1980 Grain Supply Agreement with the U.S. which expires at the end of this year. If this happens, we can expect to incur a substantial reduction in our market share and long-term losses to growers.

In addition to the Customs Service's rule changes, there is also the issue of the Commerce Department's countervailing-duty investigation of textile and apparel imports from thirteen countries. These imports are valued at $1 billion a year, and according to Commerce Secretary Baldridge account for 3.7 percent of the total U.S. textile market. During 1983, the thirteen countries named in this investigation imported $1.58 billion worth of feed grains, $507.2 million of soybeans and $695.9 million dollars of wheat from the U.S., for a total of $2.78 billion.

The value of these export markets can also be measured in terms of jobs. The U.S. Agriculture Department estimates that for every additional one billion dollars in farm exports 31,700 new jobs are created. Using that figure, the $2.78 billion in farm commodity exports represents 88,126 jobs. When U.S. wheat exports to the 13 countries considered above are combined with those countries which would be most affected by the Customs Service's rule changes (China, Hong Kong, Korea, Japan, Taiwan, Bangledesh), the stakes in this controversy become even clearer, amounting to $1.16 billion in 1983, or 34.6 percent of total U.S. wheat export value.

It is impossible to determine the degreee of retaliation these countries might take when their textile and apparel exports to the U.S. are restricted. Judging, however, from past experience they will likely diversify their sources of food imports. We are not saying that we will lose all of these markets, but we are all but certain to lose market share, as our competitors in the world wheat export market (Australia, Canada, Argentina and the EEC) have demonstrated their ability and willingness to absorb our lost or forfeited market shares.

Mr. Chairman, trade issues cannot be compartmentalized, because the impact of protectionist decisions can too easily spill-over into other sectors. Moreover, the cost of this fallout, as was seen in the 1983 textile dispute, can easily eclipse the value of the protection sought for a domestic industry.

President Reagan's recent decision on steel imports, the least protectionist action of the options under consideration, demonstrates an awareness of the impact that domestic protection can have on export sales opportunities. By avoiding new tariffs and quotas on imported steel, the President has hopefully steered a course that will keep U.S. farm exports safe from retaliation. Certainly, his decision to reject new restraints on copper imports has had this effect. We now hope that the path towards anti-protectionist solutions to trade problems will lead to the reconsideration of "country of origin" textile import rules mentioned earlier.

Thank you Mr. Chairman for this opportunity for the National Association of Wheat Growers to appear before your subcommittee. I will be pleased to respond to questions at the appropriate time.

Senator MATHIAS. Thank you, Mr. Schwensen.

First of all, Mr. Gluckson made some reference to the impact of trade restrictions on larger issues of foreign policy. I was reminded of an instance that occurred some years ago.

The United States had through its aid program financed the construction of a very large meatpacking plant in Argentina. It was a long time ago, but somewhere in the back of my mind the figure of $26 million is lodged as the cost of this plant. The United States invested $26 million of American taxpayers' money in this project.

But about the time that the plant was completed and they were ready to open the doors and switch on the operation, the domestic beef industry became concerned about the impact of imported beef and additional restrictions were added which made it impossible for any of the beef processed in this plant to be imported into the United States. This must have left the Argentines in a state of extreme confusion, that the crazy Americans would build a plant and stimulate the beef industry, then close the doors to the receipt of any of the processed products from the plant.

Clearly, somebody had not thought out this problem before this $26 million was invested in the first place. But it is an example of the kind of anomaly you run into if there is not long-range thinking and comprehensive consideration given to this whole subject.

Mr. GLUCKSON. Mr. Chairman, just recently Burlington Industries sent their chairman to China to sell piece goods to the Chinese. At the same time, Commerce Department and Treasury started the countervailing lawsuit. This gentleman sat around his hotel room for 2 weeks trying to get transportation out of China, and the Chinese made it as difficult as possible for him to come out.

With the one hand not knowing what the other hand is doing, it is so confusing; and what is going on with these new rules and regulations affecting businessmen, who placed their good word on the line a year ago or a year and a half ago or 6 months ago, and all of a sudden coming here to testify in August for something that is going to be effected in September. You can realize what jeopardy we really put ourselves in.

Senator MATHIAS. Would you say that we are becoming the "inscrutable occidentals"? [Laughter.]

Mr. GLUCKSON. I was going to use another expression, sir, but I will not use it here. Thank you.

Senator MATHIAS. There is, of course, a concern about the downstream effect of restrictions, that we are aware of. As a part of this series of hearings on the world economy, we have looked into the copper problem, which Mr. Schwensen mentioned.

It was interesting to me that at the time we had the copper mining interests for the West before the committee I received a desperate message from some fabricators who use copper in Maryland, who said that if we boost the price, the world price of copper, by import restrictions, we will put the Maryland fabricators out of business because they would not be able to compete.

We have another Maryland example, of specialty steel. There is now a specialty steel quota on rods, specialty steel rod quota, which has resulted in about a 24-percent increase in the domestic cost of specialty steel rods. Maryland fabricators who use the specialty steels are now finding that what has happened is that the Canadians are simply buying the rods at the previous world price, which is 24 percent below the current U.S. price, fabricating the steel into wire, and then selling the wire in the United States in competition with the domestic industry.

So these are two examples of how you have to be very careful when you put these restrictions on to make sure that somewhere downstream there are not damaging effects to American industry and loss of American jobs, which is what has happened in the wire industry and which is what was feared in the copper industry.

Yes, Mr. Daniels?

Mr. **Daniels**. Senator Mathias, my name is Michael Daniels. I am accompanying Mr. Gluckson.

We have a very startling example of that internally in this coalition of industries that appears before you. The textile industry is generally conceded to be one of the most competitive industries in the world. They have modernized and poured money into plant and equipment.

And yet, the crackdown on piece goods imports—that is to say, fabric and yarn—by this industry hurts only one sector, and that is the apparel sector, which is generally conceded to be the area in which difficulty is being experienced. So within this very coalition we have exactly what you are talking about. We are paying very high duties for fabric in the first place, imported fabric; and, No. 2, they are subject to a real crackdown by way of quota.

Ironically, the other factor that is involved is that the major importers of these fabrics are the textile industry itself, which converts them into printed and dyed cloth. So the very contradiction you are talking about in policy exists within this industry complex.

Senator **Mathias**. You anticipated my next question.

Mr. **Daniels**. I am sorry.

Senator **Mathias**. It refers to the downstream effects that you may perceive in this instance, and I am glad you did anticipate it.

Mr. Hand, let me put to you the question that I put to the last panel, on productivity. Have you noticed any impact, favorable or unfavorable, on the textile and apparel industries since the development of the MFA?

Mr. **Hand**. I would like to reflect a little bit on that and perhaps send you something for the record, if I may.

Senator **Mathias**. Let me extend to you the same terms that I did to the first panel, to supplement your statement here today with any comments or statistics that you can give us on the productivity factor.

Mr. **Hand**. I would be very glad to do that.

Senator **Mathias**. Fine.

[The material referred to follows:]

PRODUCTIVITY IN THE U.S. TEXTILE MILL PRODUCTS (SIC 22) AND APPAREL AND RELATED PRODUCTS (SIC 23) INDUSTRIES

1. Existing productivity measures are inherently unreliable.—Published productivity measures, with the possible exception of academic studies, etc., do not exist. The Bureau of Labor Statistics does make estimates of productivity by deflating each year's value of shipments of the industry (as published by the Bureau of Census) by an appropriate price index to derive a constant dollar value of shipments series. These figures are then adjusted for changes in inventories, also in constant dollars. The result is then divided by employee hours to arrive at a constant dollar output per employee hour (productivity). Due to the limited reliability of these measures for these two industries, the Bureau of Labor Statistics does not publish their results.

2. *Existing productivity measures do not reflect changes in physical productivity.*—Existing productivity measures are based on the constant dollar value of output per employee hour. This procedure does not reflect changes in the physical output (e.g., yards of printcloth, etc.) per employee hour.

3. *Existing productivity measures are not appropriate for the textile and apparel industries.*—Due to the large number of industry participants producing an infinite variety of products, macro productivity measures are not appropriate for the textile and apparel industries. Macro productivity measures will not reflect the wide variation in performance between sub-industries nor will they reflect changes in product mix.

4. *Existing productivity measures, as well as indirect data, indicate that there have been productivity increases in the textile and apparel industries.*—The unpublished data of the Bureau of Labor Statistics indicates that there have been increases, on average, in the U.S. textile and apparel industries. As expected, there has been substantial variation between industry segments, as well as over time. The general trend is toward increasing productivity. In addition, indirect economic data (e.g., Federal Reserve Board Industrial Production Index, etc.) indicates slow long-term growth in U.S. textile and apparel output. These indications of the growth in output taken in light of the secular decline in industry employment indicate that there has been growth in physical productivity, although the exact magnitude of this growth is impossible to measure.

5. *There is no measurable relationship between the MFA and productivity in the U.S. textile and apparel industries.*—Even if reliable productivity measures existed, there would be no way of relating this to the implementation of the MFA. The performance of the U.S. industry, and capital expenditures particularly, are most closely related to the actual and expected performance of the U.S. economy, not actual or expected import levels. In order to estimate the relationship between the implementation of the MFA and productivity in the U.S. industry, it would be necessary to estimate the performance of the U.S. industry absent the MFA. This is clearly a difficult, if not impossible task.

6. *Conclusion.*—There is no adequate measure for productivity in the U.S. textile and apparel industries. Even if such a measure existed, it would be impossible to relate it to the implementation of the MFA.

Senator **Mathias**. Mr. Schwensen, I do not know whether your expertise extends to cotton and wool, but there was some argument made by the previous panel that in the wool area, for example, the protection of the domestic textile and apparel industry would benefit that segment of agriculture. I believe you were here for that testimony. Would you comment on that?

Mr. **Schwensen**. Yes, Senator. There is no question that the domestic market represents a very big market to U.S. cotton growers. But I think it is also significant and most often overlooked that Asian markets represent good export markets for the American cotton grower as well, with Korea, for example, importing $300 million worth.

Moreover, it seems that as textile interests look at the countries of origin, and China in particular, there is a tendency to kind of write off its importance. It does happen to be the second largest wheat importing country in the world. Production has been increasing in that country, and I have some statistics I would like to include in the record, Senator, if I might.

Senator **Mathias**. Without objection, they will be included in the record.

[The material referred to follows:]

CHINA: Grain Imports by Supplier, CY 1970-1983 ('000 metric tons)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
WHEAT														
Argentina	0	0	0	0	145	65	0	850	0	885	665	126	94	2,946
Australia	2,220	10	0	768	1,317	1,352	934	2,985	2,435	2,968	1,998	1,261	2,102	451
Canada	1,970	3,010	3,687	2,398	1,772	1,422	987	3,002	3,275	2,751	2,627	3,065	3,526	4,659
EC	450	0	0	0	206	0	0	0	0	79	133	621	666	860
U.S.	0	0	565	2,815	1,905	0	0	0	2,275	1,604	6,394	7,617	6,870	2,458
TOTAL WHEAT	4,630	3,020	4,252	5,981	5,345	2,839	1,921	6,837	7,985	8,287	11,817	12,690	13,258	11,374
COARSE GRAINS														
Argentina	0	0	14	126	574	95	0	0	190	0	0	0	155	50
Australia	0	0	0	0	0	0	0	0	0	65	20	24	108	0
Canada	0	0	0	0	0	0	0	0	0	0	0	77	0	83
EC	0	0	1	0	0	0	0	0	0	0	0	0	18	24
Thailand	0	0	0	0	0	0	0	0	60	34	141	140	95	161
U.S.	0	0	376	1,500	854	0	0	0	1,703	2,390	1,667	468	1,590	1,357
TOTAL COARSE GRAINS	0	0	391	1,626	1,428	95	0	0	1,953	2,489	1,828	709	1,966	1,675
TOTAL WHEAT AND COARSE GRAINS														
Argentina	0	0	14	126	719	160	0	850	190	885	665	126	249	2,996
Australia	2,220	10	0	768	1,317	1,352	934	2,985	2,435	3,033	2,018	1,285	2,210	451
Canada	1,970	3,010	3,687	2,398	1,772	1,422	987	3,002	3,275	2,751	2,627	3,142	3,526	4,742
EC	450	0	1	0	206	0	0	0	0	79	133	621	684	884
Thailand	0	0	0	0	0	0	0	0	60	34	141	140	95	161
U.S.	0	0	941	4,315	2,759	0	0	0	3,978	3,994	8,061	8,085	8,460	3,815
TOTAL IMPORTS	4,630	3,020	4,643	7,607	6,773	2,934	1,921	6,837	9,938	10,776	13,645	13,399	15,224	13,049
U.S. SHARE (%) OF CHINA WHEAT IMPORTS	0	0	12.1	47.1	35.6	0	0	0	28.5	19.4	54.1	60.0	51.8	21.6

[From the Wall Street Journal, Sept. 25, 1984]

UNITED STATES-CHINA CHILL EASES PRESSURE ON GRAIN PRICES—SOVIET UNION'S BUYING SPREE OFFSET BY EXPECTED CUT IN PEKING'S PURCHASES

(By Wendy L. Wall)

CHICAGO.—A deepening chill in U.S.-Chinese trade relations is helping hold down wheat prices—blunting the impact of large purchases of U.S. grain by the Soviet Union.

China is expected to retaliate for a recent tightening of U.S. textile-import rules by refusing to purchase as much grain as agreed upon under a long-term trade agreement with the U.S., according to Agriculture Department and grain industry sources.

Also, it's increasingly unlikely that the two nations will renew their grain agreement when it expires at the end of this year, the sources said.

The dwindling of grain sales has dampened hopes that China would one day rival the Soviet Union as a major customer for U.S. grain. At its peak in 1980, the year the U.S. embargoed grain shipments to the Soviets following the invasion of Afghanistan, China imported $2.3 billion in farm products from the U.S. In 1982, it was the U.S.'s biggest wheat customer.

But a series of record Chinese wheat harvests and disputes over textile issues cut China's farm imports from the U.S. by 76 percent since 1980, to just $544 million last year. The slowing of trade comes at a time when the Soviet Union is sharply increasing its U.S. grain purchases, probably to record levels in the coming year. However, analysts say the slump in sales to China is tempering the impact of those purchases on grain prices and the U.S. farm economy.

Fears that the Chinese will repudiate the grain agreement, which calls for the purchase of at least six million metric tons of U.S. grain in 1984, helped push wheat futures last week on the Chicago Board of Trade to a six-month low of about $3.44 a bushel, analysts said.

"If the Chinese problem should develop into a real squabble, it would tip the balance to the bearish side." said Susan Hackmann, an analyst in Chicago with DLJ/Pershing Futures, a division of Donaldson, Lufkin & Jenrette Inc.

The Reagan administration's new textile rules, which took effect Sept. 7, effectively restrict indirect textile exports by China to the U.S. The rules prevent a country from circumventing U.S. import quotas by shipping mostly completed garments to another country to be assembled before shipment to the U.S. In the past, China and other textile-producing nations have eluded U.S. quotas by sending garment segments to countries whose quotas haven't been filled.

China has protested the new rules, with its ambassador to the U.S., Zhang Wenjin, saying in a letter last month to the Reagan administration that the regulations would harm hundreds of factories employing thousands of workers in southern China. Zhang also hinted that China might retaliate.

So far this year, China has bought only 4.2 million metric tons of grain. And China isn't expected to honor an earlier commitment to buy an additional 2.2 million tons of grain that it failed to purchase in 1983, when another textile trade spat led it to cut its U.S. purchases.

In addition, China recently reaped its fourth consecutive record wheat harvest and doesn't need the grain. Total Chinese wheat imports for the year ended June 30 fell 23 percent from a year earlier, while purchases from the U.S. during the 1983 calendar year dropped 56 percent from 1982.

Although the decline in grain purchases from the U.S. is caused largely by an overall drop in Chinese imports, analysts say that if any country has benefited it's Australia. Australia's sales to China this year are up about 160 percent from last year, partly because poor weather sharply reduced Australia's crop last year.

China's improved grain harvest reflects an internal policy change. In the late 1970s, as part of its post-Mao-era reforms, the Chinese government promised to provide grain to farmers who would specialize in cotton, rapeseed, soybeans and other non-grain crops. Since 1982, however, China has encouraged farmers to specialize in grain production as well.

That shift, as well as the simmering trade dispute, may preclude another grain agreement when the current four-year accord expires Dec. 31, according to analysts. So far, China hasn't expressed any interest in a new agreement, said a China analyst at the Agriculture department. "We didn't feel we got too much out of (the agreement) and probably wouldn't press it," the analyst added.

China allowed a similar grain agreement with the European Economic Community to lapse when it ran out in July 1983, and analysts said the Chinese may allow other grain agreements with Australia and Argentina to expire as well.

"There's a feeling that right around the world, they might let these things lapse," said Robert Lekberg, grains analyst in Chicago for Shearson Lehman/American Express Inc.

[From the Chicago Tribune, Sept. 24, 1984]

EXPORTS NOW CRUCIAL TO U.S. FARMERS

WASHINGTON [AP].—A report by the National Association of Wheat Growers shows dramatically how important exports are to farmers. Take away China, for example, and wheat producers would have received 28 cents a bushel less for their grain since 1980.

Exports have become vital to the U.S. farm economy and figure prominently in the nation's trade policies. Hardly an agricultural law can be passed in Congress without some reference to exports.

The report, published in the association's monthly magazine, the Wheat Grower, was based largely on studies done by the Congressional Research Service of the Library of Congress at the request of Rep. Virginia Smith [R., Neb].

At the heart of the association's concern is the potential loss of the China market because of a dispute over U.S. restraints on textile imports, an off-and-on flap in the last several years.

One of the results has been China's failure to live up to the terms of a four-year agreement that calls for the purchase of at least 6 million to 8 million metric tons of wheat and corn annually, beginning in 1981 and continuing through 1984.

A metric ton of about 2,205 pounds is equal to 36.7 bushels of wheat or 39.4 bushels of corn.

In the first year, China bought 7.6 million tons of wheat and 500,000 tons of corn. Purchases in the second year were 6.8 million tons of wheat and 1.6 million tons of corn.

In 1983, China bought only 3.83 million tons total: 2.45 million tons of wheat and 1.38 million tons of corn. China assured the United States that it would make up the shortfall in 1984. But that hasn't occurred.

The U.S. wheat supply can be affected greatly by changes in export outlook, primarily because so much of the crop must be sold abroad to avoid a surplus.

In the 1984-85 wheat marketing year, which began June 1, for example, the old-crop carryover was more than 1.39 billion bushels. This year's harvest of more than 2.57 billion bushels makes a supply of almost 3.97 billion bushels of wheat for the marketing year that ends May 31.

Only about 645 million barrels of wheat will be needed as food in 1984-85. Feed, seed and other uses will account for more than 400 million bushels. Thus, total domestic wheat use will be less than 1.1 billion bushels.

Exports are forecast at nearly 1.53 billion bushels, the second-highest level on record. In all, about 2.6 billion bushels of wheat will be used in 1984-85, slightly in excess of this year's bumper harvest.

That means that the wheat carryover next June 1 will be down slightly to less than 1.38 billion bushels.

It also means that if it were not for a lively export surge, primarily because of the Soviet Union's needs, the U.S. wheat bin would be filled even more by the next harvest.

Although the National Association of Wheat Growers report focused on China and the U.S. grain export situation, the analysis said some factors could apply to agricultural trade generally.

One of the papers provided to Smith by the Congressional Research Service included a table that showed how many dollars in exports would have been lost if China had not been in the U.S. market, beginning in 1980.

In all, U.S. exports would have been $8.34 billion less in the 1980-83 period if China had not been buying wheat and corn. The paper also cited an Agriculture Department estimate that each $1 billion of farm exports accounts for about 30,000 jobs.

"These jobs are about equally divided between the farm sector and all other sectors associated with the processing, transporting and exporting of the commodities," said A. Barry Carr, who wrote the memo to Smith.

In 1981, if China had not bought U.S. grain, exports would have declined $1.92 billion, affecting 57,510 jobs, he said.

Studies by the U.S. Department of Agriculture also indicate that each $1 of exports stimulates $1.23 of output in the U.S. economy.

"Using this multiplier, I would estimate the loss in economic activity outside the farm sector to range between a low of $1.49 billion in 1983 and a high of $2.36 billion in 1981," Carr said in his memo. These losses are in addition to the losses in export revenues, he said.

U.S.S.R. AND CHINA: GRAIN S&D, WHEAT AND COARSE GRAINS, JULY/JUNE YEARS 1977/78–1984/85

[Million metric tons/hectares]

	Area harvested	Yield	Production	July/June		Net imports	Utilization total [1]	Stocks change [2]
				Imports	Exports			
U.S.S.R.								
Wheat and coarse grains:								
1977/78	122.7	1.51	184.7	18.4	2.0	16.4	215.1	–14.0
1978/79	120.9	1.87	226.2	15.1	2.5	12.5	219.7	19.0
1979/80	118.9	1.44	171.3	30.5	.5	30.0	214.4	–13.0
1980/81	119.3	1.50	178.7	34.0	.5	33.5	214.2	–2.0
1981/82	117.3	1.30	152.0	45.0	.5	44.5	200.5	–4.0
1982/83	115.3	1.49	172.0	31.5	.5	31.0	204.0	–1.0
1983/84 [3]	112.1	1.63	183.0	32.0	.5	31.5	209.5	5.0
1984/85 [4]	111.6	1.47	164.0	45.0	1.0	44.0	210.0	–2.0
Wheat								
1977/78	62.0	1.49	92.2	6.6	1.0	5.6	106.8	–9.0
1978/79	62.9	1.92	120.8	5.1	1.5	3.6	106.5	18.0
1979/80	57.7	1.56	90.2	12.1	.5	11.6	114.8	–13.0
1980/81	61.5	1.60	98.2	16.0	.5	15.5	114.7	–1.0
1981/82	59.2	1.35	80.0	19.5	.5	19.0	102.0	–3.0
1982/83	57.3	1.50	86.0	20.2	.5	19.7	105.7	0
1983/84 [3]	50.0	1.56	78.0	20.5	.5	20.0	95.0	3.0
1984/85 [4]	53.0	1.47	78.0	24.0	1.0	23.0	101.0	0
Coarse grains: [5]								
1977/78	60.6	1.53	92.6	11.7	1.0	10.7	108.3	–5.0
1978/79	58.0	1.82	105.3	9.9	1	8.9	113.2	1.0
1979/80	61.2	1.33	81.1	18.4	0	18.4	99.5	0
1980/81	57.9	1.39	80.5	18.0	0	18.0	99.5	–1.0
1981/82	58.0	1.24	72.0	25.5	0	25.5	98.5	–1.0
1982/83	58.0	1.48	86.0	11.3	0	11.3	98.3	–1.0
1983/84 [3]	62.1	1.69	105.0	11.5	0	11.5	114.5	2.0
1984/85 [4]	58.6	1.47	86.0	21.0	0	21.0	109.0	–2.0
CHINA								
Wheat and coarse grains:								
1977/78	62.0	1.80	111.8	8.7	.1	8.5	120.3	0
1978/79	62.7	2.12	132.9	11.1	.1	11.0	143.9	0
1979/80	63.1	2.31	145.8	10.9	.1	10.8	156.5	0
1980/81	61.7	2.26	139.4	14.6	.2	14.4	154.0	0
1981/82	59.4	2.36	140.4	14.5	.2	14.3	154.8	0
1982/83	58.5	2.60	151.9	15.7	.1	15.6	167.5	0
1983/84 [3]	59.9	2.90	173.8	10.3	.3	9.9	183.8	0
1984/85 [4]	60.4	2.92	176.3	12.1	4	11.6	188.0	0
Wheat:								
1977/78	28.1	1.46	41.1	8.6	0	8.6	49.7	0
1978/79	29.2	1.84	53.8	8.0	0	8.0	61.9	0
1979/80	29.4	2.14	62.7	8.9	0	8.9	71.6	0
1980/81	29.2	1.89	55.2	13.8	0	13.8	69.0	0
1981/82	28.3	2.11	59.6	13.2	0	13.2	72.8	0
1982/83	27.9	2.45	68.4	13.0	0	13.0	81.4	0
1983/84 [3]	29.0	2.80	81.4	10.0	0	10.0	91.4	0
1984/85 [4]	29.3	2.86	84.0	11.0	0	11.0	95.0	0

U.S.S.R. AND CHINA: GRAIN S&D, WHEAT AND COARSE GRAINS, JULY/JUNE YEARS 1977/78–1984/85—Continued

[Million metric tons/hectares]

	Area harvested	Yield	Production	July/June		Net imports	Utilization total[1]	Stocks change[2]
				Imports	Exports			
Coarse grains:[5]								
1977/78	33.9	2.09	70.7	.1	.1	−.1	70.6	0
1978/79	33.5	2.36	79.0	3.1	.1	3.0	82.0	0
1979/80	33.7	2.46	83.1	2.0	.1	1.9	85.0	0
1980/81	32.5	2.59	84.2	.9	.2	.7	85.0	0
1981/82	31.1	2.60	80.8	1.3	.2	1.1	81.9	0
1982/83	30.5	2.74	83.5	2.7	.1	2.6	86.1	0
1983/84[3]	30.9	2.99	92.4	.3	.3	−.1	92.4	0
1984/85[4]	31.0	2.97	92.3	1.1	.4	.6	93.0	0

[1] Feed use data are unavailable for China.

[2] For China, utilization estimates represent "apparent" utilization, that is, they include annual stock level adjustments though no stocks data are available.

[3] Preliminary.

[4] Projection.

[5] Coarse grains include barley, rye, oats, corn, sorghum, and millet. Excluded are miscellaneous grains, pulses and rice.

Source: Commodity programs, FAS, USAD; Grain and Feed Division.

Mr. SCHWENSEN. Production has been increasing and likewise has consumption, and there is a commitment to increase wheat consumption in China and U.S. wheat farmers want to be a part of that growth.

As it stands, though, our trade policies are delivering those opportunities to our competitors. Last year Argentina, for example, increased its wheat sales to China 3,000 percent. So I think that all U.S. farmers have to have a strong interest in the export market, because producers, because of our productivity, are quite able to outproduce domestic consumption. We have to have and maintain growth in our markets overseas.

Mr. GLUCKSON. Mr. Chairman, may we offer, just for information, based on your last question, that approximately 60 percent of the cotton crop is exported overseas, to be worked, spun, utilized; and then most of it comes back to this country.

Senator MATHIAS. Then it comes back?

Mr. GLUCKSON. Yes, then it comes back.

Senator MATHIAS. Let me turn to Mr. Arena, because I believe before you came to Hutzler's you had a long and distinguished career in retailing. What role do tariffs and quotas play in the choice of a retailer for the merchandise that he is going to put on his shelves? What kind of impact does the fact that you are into one of these regulated areas have on you?

Mr. ARENA. Well, given the basic objective, which would be for most retailers to want to provide to the customers the best quality product at the best possible price, and to be distinctive in doing that and competitive in doing that, there is a significant factor that influences the selection of merchandise on the part of retailers, and that is the ability to use world markets in trying to bring to our customers the best possible product at the best possible price, as opposed to the restrictions that might force us to have limited access to world markets.

So in that regard, I think it is a question of saying that we want to provide goods and services, we want to provide it at the best possible price, and limitations that hamper our ability to do that worldwide have a net effect of limiting our ability to provide the best possible product at the best possible price; and the net effect of that is that the consumer will pay more for products, and the greater the restriction on our access to overseas markets, the higher the price the consumer will pay.

So, we feel it has a direct bearing and it has a significant influence on our segment, our industry.

Senator MATHIAS. Does it make a difference whether you are a large retailer or a small retailer? Does it impact more effectively on one or the other end of the retail scale?

Mr. ARENA. I believe it is fairly consistent between larger retailers and smaller retailers. It is true that larger retailers will establish direct importing offices. To counter that, smaller retailers get together in groups and associations, and they use the marketplaces of the foreign market.

I think it is an important factor to both smaller retailers and larger retailers. I consider Hutzler's a smaller retailer, and clearly it is a very important factor to Hutzler's, the access to those marketplaces and the potential disruption of those marketplaces, particularly recently with the country of origin issue.

It would have been a serious blow to Hutzler's for the upcoming season, for instance, if we had to scramble in the domestic market to replace merchandise that we had made commitments for out of the Far East. We either would have had two choices: We either would have paid more for it and offered the merchandise of comparable quality to the customer at a higher price, or we would have had to give up that particular category altogether, in which event the customer just would not have been able to buy that from us.

And the effect on jobs, both in the retail sector and in the manufacturing sector, are clearly affected.

Senator MATHIAS. In your statement, you made the charge that it was a costly way to maintain jobs, to impose tariffs and quotas. Let me invite you, if you have any supporting data on that, to submit that to the committee.

Mr. ARENA. I believe it has been stated earlier that during the past decade some 370,000 jobs were reduced or lost in the domestic textile and apparel industry. We believe that is true, and of course we are sympathetic to that issue.

At the same time, however, the retail industry grew and added nearly 1 million jobs. Now, those million jobs cover all of the spectrum of income levels, many of which are starting, entry-level jobs. And so, I believe that the impact that I referred to before is to say that, although there is some job disruption, which we do not dispute, if there was more open trade, more free trade in the world, our goods and services would be more competitively priced and that would create even more jobs in the retailing sector.

So, we feel that that disruption was more than offset by the job increases in the retail sector and could be even increased at a more rapid rate with more open trade.

Senator MATHIAS. Of course, the problem is that the job disruption affects one group of people and the new jobs that open up benefit another group of people. From a human point of view, that is what causes the distress.

Mr. Arena. Surely. We recognize that, and that is why we support issues that have to do with retraining and job training, because we feel that the total country and the total economy of the country is benefited by the opportunity to grow employment in the broadest sense.

The example we use is that the retail sector grew two and a half times what the apparel and textile sector lost.

Senator Mathias. I have just one final question. Do you feel that the voice of the retailers has been adequately heard in the lineup, or has this debate been dominated by the textile and apparel industries and representatives?

Mr. Arena. There is no question that it has been dominated by the textile and apparel industry. In fact, RITAC, which is the coalition that I described in my testimony, is a very recent coalition. It is as old as 2 or 3 months ago.

I believe it is the first time that the retailers in the country have gotten together to form what we hope will be the ability to have an influence on issues such as trade restrictions. That is very recent, and clearly the history is that retailers have had very little voice in that.

Senator Mathias. Thank you very much, gentlemen.

Mr. Hand, we will look to you for some further information on the productivity question. We will hold the record open for a week for further submissions on that or on any other subject that you would want to add.

Thank you very much.

The subcommittee will stand in recess subject to the call of the Chair.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, ALEXANDRIA, VA

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

The Subcommittee's review of trade policies and practices pertaining to U.S. imports of textiles and apparel is useful and important. However, like all other hearings touching on this subject, it neglects a major dimension of balanced, constructive treatment of this subject—a major dimension of the balanced assessment needed in addressing the problems and needs of this major U.S. industry in a rapidly changing and increasingly competitive world. The dimension I have in mind has been neglected throughout the history of U.S. policy on imports of textiles and apparel—a shortcoming common to the government's response to all industries seriously buffeted by foreign competition. Neglected is a coherent, comprehensive, industry-adjustment strategy (in this case a textiles-and-apparel redevelopment strategy) as the framework for whatever government assistance is warranted and as the instrument for a deliberate effort to phase-out whatever trade restrictions might be deemed necessary.

Through one kind of textile import control or another, we have had a textile trade policy for nearly 30 years, but never a coherent, comprehensive, textile policy in the overall and most enlightened sense. The Executive Branch has never adopted such an adjustment policy, nor has Congress or any of its committees asked it to move in this direction. There is no evidence that any such strategy is in the making. Import control in some degree might be necessary to buy time for such an industry adjustment effort, but such trade restraint should be temporary and only a last-resort component, not the permanent fixture that import controls appear to have become. A definitive free-trade premise (expectation of the ultimate removal of trade barriers) should be factored into such a strategy, and firm, explicit commitments should be forthcoming from management and labor as well as from government on the things that each sector needs to do to ensure the strategy's success. Government's involvement should include reassessment of all statutes and regulations materially affecting the industry's ability to adjust to new and rapidly changing international economic realities. Any inexcusable inequities should be corrected forthwith. The government's involvement in such an industry-adjustment effort should be systematically reviewed by Congress to make sure that government assistance does not last longer than is necessary in the best interests of the industry and of the nation as a whole, and that continued government involvement is adequately and properly attuned to achievement of a well-designed objective for the textile-and-apparel industry in the context of the total national interest.

Our Council appears to be the only advocate of such policy reform. Thus, to restrict or not to restrict imports—and, if restriction, then how much—is not the sum and substance of our Council's attention to the U.S. textile-and-apparel industry. We are concerned with the real problems and needs of the people and communities that are dependent on this industry in one way or another—a concern cast in the framework of concern with the needs and aspirations of the American economy as a whole. We note with regret that these dimensions of the textile-and-apparel issue are neglected no less by other advocates of freer world trade than by those who defend restriction of textile-and-apparel imports.

STATEMENT OF THE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO welcomes this opportunity to present its views on the trade problems faced by the U.S. textile and apparel industry. Rapidly increasing imports displacing domestic production have had a profound and negative impact on hundreds of American communities and thousands of American workers. Left unchecked, this flood of imported garments and textiles threatens the very existance of an industry that is crucial to the maintenance of a healthy and diversified economy.

The continued deterioration of America's trade position in textiles and apparel has contributed significantly to the disasterous decline in the overall trade position of the United States. In 1983, the U.S. merchandise trade deficit reached a record $69 billion, almost double the level experienced in 1980. The deficit for 1984 is expected to exceed $125 billion. While these figures are chilling in and of themselves, a look at trade in manufactured products paints an even darker picture.

Between 1980 and 1983, manufactured exports fell 8 percent, while manufactured imports increased 30 percent. In 1980, the United States enjoyed a surplus of $12.5 billion in this sector. By 1983, this surplus had vanished and the nation recorded a deficit in manufacturing trade in excess of $38 billion. By the end of this year, this deficit will more than double and reach $85 billion.

The 1983 deficit of $10.6 billion for textile and apparel products represents almost a third of the total U.S. manufacturing trade deficit. While exports of textile products have declined in response to the worldwide recession and a vastly overvalued dollar, imports of apparel have risen sharply, and for 1984 are running at levels 29 percent ahead of the record levels experienced in 1983. Apparel imports now account for more than 45 percent of the domestic market.

The impact of these import surges and the resulting trade deficit on employment is devastating. Despite the recent expansion of the U.S. economy there are 1.3 million fewer manufacturing jobs than in 1979. Employment in the textile and apparel sector has dropped by more than 200,000 in that same period.

What is doubly tragic is that both U.S. law and policy and international regulations are designed to prevent this kind of market disruption. The most recent Annual Report of the President on the Trade Agreements Program states:

"The fiber-textile-apparel complex plays a major role in the U.S. economy, providing manufacturing activity and employment in every state, in both large cities and small towns. . . . In recognition of the unique importance of the fiber-textile-apparel complex to the nation, and the threat posed by the inherent volatility of textile trade, U.S. policy calls for control of imports of certain textiles and apparel. This policy is carried out through a combination of bilateral agreements and unilateral actions."

It is clear that this policy, theoretically enforced within the structure of the Multi-Fiber Arrangement (MFA) has been a failure and the promise of protection and stability for this most important industry has not been fulfilled.

The Fifteenth Constitutional Convention of the AFL-CIO in October 1983, in a resolution on International Trade and Investment specifically addressed the problems of textile and apparel trade. The resolution stated in part:

"Congressional action is needed to reduce the massive influx of job-destroying imports of garments, textiles, and footwear, industries now inundated by imports from other lands. An orderly regulation of imports of testile/apparel is necessary with provision for developing a proper relationship between imports and domestic production. A global approach toward textile and apparel and footwear imports, and modifications of the MFA and other similar provisions to prevent major distruption and economic hardship in the U.S. textile/apparel and footwear industries, are required."

The AFL-CIO believes that these steps are urgently needed to arrest this decline and restore some measure of stability to an industry that is being overwhelmed by imports. For a labor intensive industry such as this, where foreign competitors pay wages of less than $1 an hour, notions of comparative advantage or international competitiveness have little meaning. What's at issue is the survival of an industry that has and continues to contribute immeasurably to the economic growth and social progress of this nation.

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